
REGULATIONS

REGULATION

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

Establishment, operation and management of a wholly foreign-owned enterprise

The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC (the "**Company Law**"), which was promulgated by the Standing Committee of the National People's Congress on 29 December 1993 and was effective as of 1 July 1994, which was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005. The Company Law generally governs two types of companies – limited liability companies and joint stock limited companies. The Company Law also applies to foreign-invested limited liability companies. Where laws on foreign investment have other stipulations, such stipulations shall prevail.

The establishment procedures, verification and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labour matters of wholly foreign-owned enterprises are governed by Wholly Foreign-owned Enterprise Law of the PRC (the "**Wholly Foreign-owned Enterprise Law**"), which was promulgated on 12 April 1986 and amended on 31 October 2000, and the Implementation Regulation under the Wholly Foreign-owned Enterprise Law, which was promulgated on 12 December 1990 and amended on 12 April 2001.

Foreign investors and foreign-owned enterprises that conduct any investments in the PRC must comply with the Guidance Catalogue of Industries for Foreign Investment (the "**Catalogue**"), which was amended and promulgated by the Ministry of Commerce and the National Development and Reform Commission on 31 October 2007. The Catalogue, as amended, became effective on 1 December 2007 and contains specific provisions that guides market access of foreign capital, which sets out in detail categories of industries that are encourages foreign investment, industries in which foreign investment is restricted and industries where foreign investment is prohibited. Any industry that is not listed in the Catalogue is a permitted industry.

Taxation

Income tax

Before the Enterprise Income Tax Law of the PRC (the "**Income Tax Law**"), which was promulgated on 16 March 2007, income tax payable by foreign-invested enterprises in the PRC was governed by the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (the "**Foreign-invested Enterprise and Foreign Enterprise Income Tax Law**") which was promulgated on 9 April 1991 and effective on 1 July 1991, along with related implementation rules. Pursuant to the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local tax at the rate of 3% unless a lower rate was provided by law or administrative regulations. Foreign-invested enterprises that were established in Special Economic Zones, foreign enterprises which was in production or had business operations in Special Economic Zones and foreign-invested enterprises of a production nature in Economic and Technological Development Zones had their income tax levied at the reduced rate of 15%. The income tax on foreign-invested enterprises engaged in production and was established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was

REGULATIONS

levied at the reduced rate of 24%. Any foreign-invested enterprise engaged in production and was scheduled to operate for a period of not less than ten years is, from the year beginning to make profit, exempted from income tax in the first and second years and allowed a 50% reduction in the third to fifth years of operation.

After the promulgation of the Income Tax Law on 16 March 2007, the income tax for both domestic and foreign-invested enterprises were both set at the same rate of 25%, effective as of 1 January 2008. However, there was a transition period applied to enterprises that received preferential tax treatments granted by relevant tax authorities. Enterprises that were subject to an enterprise income rate lower than 25% to enjoy the lower rate and gradually transfer to the new tax rate after the effective date of the Income Tax Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

Value-added tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC effective from 1 January 1994 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT is 17% or in certain limited circumstances, 13%, depending on the product nature.

Environmental protection

According to the Environmental Protection Law of the PRC (the “**Environmental Protection Law**”), which was promulgated and effective as of 26 December 1989:

- environmental assessment must be conducted on a construction project and such environmental assessment report must be approved by the environmental authority before the construction project could be approved;
- any entity that discharges pollutants must establish environmental protection rules and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;
- in a construction project, environmental pollution prevention and treatment facilities must be designed, constructed and put into operation at the same time with the principal part of the construction project;
- a construction project can only be put into operation after the related environmental pollution prevention and treatment facilities have been approved and accepted by the environmental protection authorities;
- any entity that discharges pollutants must report to and register with the relevant environmental protection authorities; and
- any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee therefore.

REGULATIONS

Violation of the Environmental Protection Law may result in fines, suspension of operation, close-down or even criminal liabilities.

Foreign currency exchange and dividend distribution

Foreign currency exchange

The principal regulations governing foreign currency exchange in China is the Foreign Exchange Administration Rules of the PRC (the “**Foreign Exchange Administration Rules**”), promulgated by the State Council on 29 January 1996 and became effective on 1 April 1996 and amended on 14 January 1997 and 1 August 2008. Under these rules, Renminbi is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of the State Administration of Foreign Exchange (“SAFE”) is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities or to pay dividends. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside China are subject to limitations and require approvals from SAFE.

Dividend distribution

The principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include Wholly Foreign-owned Enterprise Law and The Implementation Regulation under the Wholly Foreign-owned Enterprise Law, which was promulgated on 12 April 1986 and amended on 31 October 2000 and promulgated on 12 December 1990 and amended on 12 April 2001, respectively.

Under these regulations, wholly foreign-owned enterprises in China can only pay dividends from accumulated after-tax profits, if any, determined in accordance with 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 until the accumulated reserve amounts to 50% of its registered capital. Such enterprises are also required to set aside funds for the employee bonus and welfare fund from their after-tax profits each year at percentages determined at their sole discretion. These reserves are not distributable as cash dividends.

Foreign Exchange Registration

According to the Notice on Issues Relating to Foreign Exchange Control on Fundraising by Domestic Residents through Offshore Special Purpose Vehicles and Round-trip Investments (the “**No. 75 Notice**”), which was promulgated on 21 October 2005 by SAFE, domestic resident natural persons or domestic resident legal persons are required to register with the competent local branch of SAFE before they establish or control any offshore special purpose vehicles for capital raising with the assets or equity interest of PRC domestic companies owned by them. According to the No. 75 Notice, resident natural persons include those individuals who have PRC citizenship or other

REGULATIONS

domestic legal status and those “individuals who do not have any domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests”. In accordance with the Notice of the General Affairs Department of the State Administration of Foreign Exchange on Printing and Distributing the Operating Rules for the Notice of the State Administration of Foreign Exchange on the Relevant Issues about Foreign Exchange Control over the Financing and Return Investment of Domestic Residents through Overseas Special Purpose Companies (Hui Zong Fa [2007] No. 106), which was promulgated on 29 May 2007 by SAFE, “individuals who do not have domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests” mainly include the following (and does not matter whether he/she has a PRC statutory identification certificate or not):

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

Based on the above: (i) Mr. Wong and Ms. Ching have confirmed that they are permanent residents in Hong Kong and their current residence in the PRC is a temporary one to facilitate management of their investment in the PRC; (ii) our PRC legal advisors have advised that Mr. Wong and Ms. Ching are not required to register pursuant to the No. 75 Notice.

PRC Regulations on the Issue and Listing of Shares Outside China and relevant Regulatory Approvals

According to the Circular on Further Strengthening Administration of the Issue and Listing of Shares Outside China (Guo Fa [1997] No. 21), which was promulgated by the State Council of the PRC and came into effect on 20 June 1997 (the “**Red Chip Guideline**”), in the event that an unlisted overseas Chinese enterprise or a listed Chinese controlled enterprise applies for an overseas listing where it has held its overseas assets or domestic assets for more than three years and these assets were obtained through investment of overseas asset, local laws will apply. However, domestic businesses that hold the rights in the shares of Chinese-funded enterprises shall obtain the prior consent of the People’s Government at the provincial level or the competent authority of the State Council of the PRC. Companies’ assets within China that have been owned for less than three years may not be included in the application for issue and listing of shares outside China unless there is a special need to do so, under which circumstance the matter shall be examined by the China Securities Regulatory Commission and subsequently examined and approved by the State Council Securities Commission. Following completion of the listing activity, the domestic businesses that hold equity interests in the Chinese-funded enterprise shall report to the China Securities Regulatory Commission.

In accordance with the Decision of the State Council on the Cancellation of Administrative Approval Items for the Second Batch and on the Alteration of the Regulatory Measures on a Batch of Administrative Approval Items (Guo Fa [2003] No. 5), which was promulgated by the State Council and became effective on 27 February 2003, “the inspection of the legal opinion regarding issuing of shares and listing of the overseas company relating to domestic rights and interests issued by the PRC lawyer made by the China Securities Regulatory Commission” provided in the Announcement

REGULATIONS

on the Issues concerning the Issuing Shares and Listing of the Overseas Company related to the Domestic Rights and Interests (Zheng Jian Fa Xing Zi [2000] No. 72), as promulgated by the China Securities Regulatory Commission on 9 June 2000, belongs to the 313th item of the 406 administrative approval items and shall be cancelled.

China Securities Regulatory Commission promulgated the Announcement of China Securities Regulatory Commission on the Cancellation of Administrative Approval Items for the Second Batch and on the Alteration of Regulatory Measures on Some Administrative Approval Items, and the Notice on Doing a Good Job in the Cancellation of Administrative Approval Items for the Second Batch and in the Subsequent Supervision and Maintaining Consistency after the Alteration of Regulatory Measures on Some Administrative Approval Items (Zheng Jian Fa [2003] No. 17)) on 1 April 2003. In accordance with the aforementioned documents, since 27 February 2003, the legal opinion regarding issuing of shares and listing of the overseas companies relating to domestic rights and interests issued by the PRC lawyer has not been accepted by the China Securities Regulatory Commission. If the legal opinion issued by the PRC lawyer was accepted prior to this, no objection letter will be issued.

The Rules on Merger and Acquisition of Domestic Enterprises by Foreign Investors (the “**M&A Rules**”), which was promulgated by the Ministry of Commerce, the State Asset Supervision and Administration Commission, the China Securities Regulatory Commission, the State Administration of Taxation, the State Administration for Industry and Commerce and the SAFE became effective on 8 September 2006 and applies in the event that foreign investors acquire PRC enterprises. We were advised by our PRC legal advisor that the Red Chip Guideline and M&A Rules are not applicable to the listing of our Company and we are not required to obtain approval from the PRC government authorities in respect of the listing of our Company since World Fair Heshan was set up as a new wholly foreign owned enterprise before 8 September 2006 by an offshore entity owned by Mr. Wong and Ms. Ching and was owned by Mr. Wong and Ms. Ching since its establishment.