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

Policies relating to the Foreign-invested Pediatric Nutrition Products Industry

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

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

Regulatory System relating to the Infant Food Industry

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

Food safety system

According to the *Food Safety Law of the PRC* (中華人民共和國食品安全法) adopted by the National People's Congress Standing Committee on 28 February 2009 and implemented on 1 June 2009, one of the most significant pieces of legislation adopted after the melamine incident, the food safety standard is compulsory and should include the following;

- (1) maximum limits relating to the level of pathogenic micro-organisms, pesticide residues, veterinary medicine residues, heavy metals, contaminants and other substances which may be harmful to human health found in food and food-related products;
- (2) types, scope of application and dosage of food additives;

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

The health administrative department (衛生行政部門) of the State Council is responsible for formulating and announcing national food safety standards. Where there are no national food safety standards, the health administrative department of provinces, autonomous regions and municipalities directly under the central government may formulate their own local food safety standards. If there are no national food safety standards or local standards, enterprises should formulate their own enterprise standards to regulate their own food production. Imported food, food additives and food-related products should comply with the PRC national food safety standards. Depending on the circumstances, violation of the Food Safety Law of the PRC may lead to confiscation of the revenue generated from products as well as the raw materials, products and equipments in question. A fine of up to 10 times the value of the products in question may be imposed and revocation of production license is possible. In serious cases, there will also be criminal liabilities.

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

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

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

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circumstances of violation, the authorities may impose a fine of up to 30 times the value of the products in question, confiscate the production equipment and revoke the production license of the business. In serious cases, there will also be criminal charges.

On 16 September 2010, the Office of the State Council promulgated the *Notice regarding the Further Strengthening of Measures regarding the Quality and Safety of Dairy Products* (the “Notice”) (關於進一步加強乳品質量安全工作的通知) (國辦發[2010]42號), requiring the strengthening of measures regarding the quality and safety of dairy products, rigorous regulations on the quality and safety of dairy products, and raise the standard of quality and safety of dairy products. The Notice presented a number of new requirements in relation to the regulation of the quality of dairy products:

- The AQSIQ shall complete the revision of the *Rules Governing the Review of Permission Granted for the Production of Dairy Products* (乳製品生產許可審查細則), by the end of October 2010;
- Quality control authorities shall strengthen the supervision and sample testing of fresh milk and raw milk powder purchased by enterprises, and such sample testing shall account for at least 15% of all of their batches;
- Quality control authorities shall conduct sample testing on manufactured products delivered by enterprises on a weekly basis;
- The AQSIQ, State Administration of Industry and Commerce, Ministry of Agriculture, MOFCOM and State Food and Drug Administration shall, together with the relevant departments, complete the establishment of an electronic tracking system concerning information on pediatric milk formula and raw milk powder and the formulation of relevant standards and regulations by the end of 2011, and shall gradually implement an electronic information tracking system in the dairy industry; and
- Municipal and county governments shall require their respective supervisory bodies to dispatch personnel to supervise the plants run by producers of pediatric milk formula within their respective jurisdictions.

Food hygiene system

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

- (1) having suitable facilities to treat raw food materials and process, package and store food based on the variety and quantity of food produced; keeping such facilities tidy and clean; and maintaining required distances between such facilities and toxic or hazardous elements or other sources of contamination;
- (2) having appropriate production and operating equipment or facilities based on the variety and quantity of food produced or operated; and having appropriate equipment or facilities for disinfection, changing, cleaning, lighting, illumination, ventilation, anticorrosion dust-proofing, fly-proofing, rat-proofing, insect-proofing, cleansing and wastewater treatment, rubbish and other waste storage;

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- (3) having technical, professional and management personnel trained in the area of food safety, and a system with rules to ensure food safety;
- (4) having equipment and production lines arranged in a practical way to prevent cross-contamination between processed food and food that is ready-to-eat, raw materials and finished products, and to avoid food being in contact with toxic and unclean substances;
- (5) tableware, drinking utensils and containers for ready-to-eat food should be cleaned and disinfected prior to use; cooking utensils and other utensils should be washed after being used and kept clean;
- (6) containers, utensils and equipment used for storage, transportation, loading and unloading of food should be kept safe, harmless and clean to prevent food contamination, and conform to specifications such as setting the temperature to a value required to ensure food safety; transporting food and toxic and hazardous substances separately;
- (7) ready-to-eat food should have small packages or use packaging materials and tableware which are non-toxic and clean;
- (8) food production and operating staff should have good personal hygiene, wash their hands thoroughly and wear clean working clothes and headwears while producing and operating food; non-toxic and clean tools should be used while selling ready-to-eat food without packaging;
- (9) water used should comply with the national hygiene standards for drinking water;
- (10) detergents and disinfectants used should be safe and harmless to the human body; and
- (11) compliance with other laws and regulations.

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

- (1) having a hygiene management system in place, organizing and training full-time or part-time professional staff to manage food hygiene;
- (2) having plants, facilities, equipment and an environment which meets hygiene requirements appropriate for food production and processing;
- (3) having conditions and measures that control contamination in production lines and during production and processing;
- (4) having raw and supplementary materials, tools, containers and packaging materials for production that meet hygiene requirements;
- (5) having agencies, personnel and necessary instruments and equipment to carry out food testing;
- (6) staff should receive training and pass health checks before commencing work; and

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(7) other conditions as required by provincial health administrative departments.

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

Food production licensing system

Pursuant to the Food Safety Law of the PRC and the Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products of the PRC, China has implemented a licensing system on food production and operation, which is another significant measure for the management and supervision of the dairy production industry after the melamine incident.

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

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

According to the *Notice of Enhancing Administration of Production Permit Licensing for Dairy Products*, (國家質量監督檢驗檢疫總局關於加強乳製品生產許可工作的通知) issued by the AQSIQ on 12 November 2008, production licenses for dairy products shall be issued by a quality and technical supervision authority at the provincial level. During the process of issuing or renewing production licenses, the authorities shall also strengthen examining of the quality testing capabilities of dairy products producers to ensure that the producers are able to identify if raw materials and dairy products contain melamine.

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

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

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Food standardization system

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

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

National Standard of the People’s Republic of China Good Manufacturing Practice for Powdered Formulae for Infants and Young Children (食品安全國家標準粉狀嬰幼兒配方食品良好生產規範 GB 23790-2010) applies to manufacturing enterprises which produce powdered infant formulas, including powdered infant formula and powdered formula for older infants and young children. It specifies the site selection of dairy producing enterprises and the environment, plants and workshops, equipment, sanitary management, raw materials and packaging materials requirements, food safety control of the production process, product testing, storage and transportation, records and document management, product traceability and recall, training, management agencies and personnel requirements for the dairy producing enterprises.

Besides complying with the three standards, enterprises producing pediatric formula products can also adopt enterprise standards to the extent that such standards are not below the corresponding technical requirements of the national standards. If this is the case, enterprises are required to file such standards with the local standardization administrative departments.

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

Ministry of Hygiene issued an announcement on 26 March 2010 (衛通[2010]7號). According to the announcement, 66 new national safety standards on dairy products have been promulgated, including “Raw Milk” (生乳) (GB19301-2010), “Infant Formula” 《嬰兒配方食品》(GB10765-2010), “Older Infants and Young Children Formula” 《較大嬰兒和幼兒配方食品》(GB10767-2010). These national food safety standards prescribe the standards of the ingredients, nutrients, the limits and the means of inspection of harmful substances, microorganisms, bacteria and other chemical compounds.

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Food imports and exports control system

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

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

Food identification management system

Pursuant to the *Food Identification Management Requirement* (食品標識管理規定) promulgated by the AQSIQ on 27 August 2007 and implemented on 1 September 2008, and was further modified by the AQSIQ on 22 October 2008 after the melamine incident, food identification labels should state the name, place and date of production, expiry date, net content, list of ingredients, names and addresses of producers, and standardization numbers of national standards, industry standards, local standards or enterprise standards for those who have filed these with the authorities.

Food labels with wordings such as “nutrition” or “strengthened” in their names or descriptions are required to state the nutrition and calories of such food in accordance with relevant national standards and, under the production licensing management scheme, are required to show their food production license numbers and the “qualified and safe” brandings, or the QS marks.

Food recall system

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

Pursuant to the *Provisions on the Administration of Food Recall* (食品召回管理規定) issued and implemented by the AQSIQ on 27 August 2007, food recall is categorized into three grades, namely grade one recall, grade two recall and grade three recall, based on the severity level of food safety hazards. Food will be recalled on two basis: voluntary recall or recall by order. The Food Safety Law of the PRC, adopted after the melamine incident, further reinforces the food recall system.

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Voluntary recall

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

Recall by order

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

- (1) food producers deliberately concealing the hazards of food safety, or food producers not taking any recall action where a voluntary recall is required;
- (2) hidden problems relating to food safety which may be harmful to human health and life are discovered during a random inspection conducted by the competent supervisory authorities.

Food producers are required to stop producing and selling the unsafe food immediately after receiving notice of a recall order.

Supervision on the Use of Food Additives

Pursuant to the Food Safety Law of the PRC, which was adopted after the melamine incident and which emphasized the supervision on food additives, no food additive may be used in food unless it is technically deemed necessary and has been proven to be safe and reliable after passing risk assessments. The health administrative department of the State Council shall, on the basis of the technical requirements and the results of the food safety risk assessments, revise the varieties, scope of use and

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standard on the dosage of food additives in a timely manner. A food producer shall use food additives in accordance to the food safety standards in relation to the varieties, scope of use and dosage of food additives, and shall not, during the process of food production, use any chemical substances other than food addictive or any other substances which may cause potential harm to human health.

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

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

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

Product Quality

Product Quality Law of the PRC (中華人民共和國產品質量法) was adopted by the National People's Congress Standing Committee on 22 February 1993 and amended on 8 July 2000. The Product Quality Law aims to strengthen supervision and control of product quality, improve product quality, clarify liability with respect to product quality, safeguard the rights and interests of consumers and protect social and economic order. According to the Product Quality Law of the PRC, if a defective product causes personal injury or damage to property other than the defective product, the producer of such product shall be liable for the injury or damage. A fine of up to three times the value of the products in question will be imposed. In serious cases, there will also be criminal liabilities. Furthermore, the Food Safety Law of the PRC as well as the Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products adopted after the melamine incident have emphasized the management and supervision of the quality of the dairy products, including the cancellation of exemption from inspection of food products by government authorities.

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The *Rules Governing the Supervision and Examination of the Implementation of Quality Safety and Primary Responsibilities by Food Production and Processing Enterprises* (食品生產加工企業落實質量安全主體責任監督檢查規定), issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC on 23 December 2009 and effective from 1 March 2010, stipulate that the authorities in charge of quality and technology supervision at the county level or above shall supervise and check the compliance by enterprises of relevant laws, regulations and standards by way of reviewing reports submitted by those enterprises, reviewing corporate records, interviewing staff members, conducting on-site inspection of production facilities, checking raw materials, food additives and relevant food products used by the enterprises and investigating the stakeholders of such enterprises.

The *Notice of Recent Rectification Work for the Nationwide Combating of the Illegal Addition of Non-edible Substances and Abused Use of Food Additives* (全國打擊違法添加非食用物質和濫用食品添加劑專項整治近期工作重點及要求), jointly issued by nine authorities including the Ministry of Health of the PRC on 6 March 2009, has focused on investigating and penalizing the following:

- Food additives: (i) non-compliance of complex food additive formulas with the Administrative Rules Governing the Health Management of Food Additives, unauthorized and illegal production of food additives, addition of non-edible substances in food additives and non-compliance of labels for food additive products with relevant provisions; and (ii) the sales of food additives illegally produced in an unauthorized manner, the sales of food additives with illegally-added non-edible materials and the sales of food additives with labels and marks which are incompliant with relevant provisions.
- Milk and dairy products: the addition of non-edible substances such as leather hydrolyte, melamine, β -lactamase, and sodium sulfocyanate and the abuse of thickeners, fragrance and color agents etc in the production of milk and dairy products.

Taxation

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

Income tax

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

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

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

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

Value-added tax

Pursuant to the *Provisional Regulations on Value-added Tax of the PRC* (中華人民共和國增值稅暫行條例) effective from 1 January 1994, which was revised on 5 November 2008 and effective from 1 January 2009 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 or 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 type.

Foreign Exchange

- A. Pursuant to the *Regulations on the Administration of Foreign Exchange of the People’s Republic of China* (中華人民共和國外匯管理條例) as amended on 1 August 2008 by the State Council and implemented since 5 August 2008, international payment in foreign exchange and transfer of foreign exchange under current accounts shall not be subject to the restrictions of the State. The incomes of foreign exchange of domestic institutions or individuals can be transferred back into China or deposited overseas. The specific requirements and terms related to the transfer or deposit shall be prescribed by the foreign exchange administration department of the State Council in light of the balance of international payments and the status of foreign exchange administration. Foreign exchange incomes and payments under the current account shall be based on authentic and lawful transactions. The foreign exchange incomes under the current account may be retained or sold to financial institutions operating the foreign exchange sale and settlement business. If offshore institutions or offshore individuals make onshore direct investments, they shall

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complete registration with the foreign exchange administrative body upon approval of the relevant competent authorities. If onshore institutions or onshore individuals propose to make an offshore direct investment or offshore issuance or trading of negotiable securities or derivative products, they shall complete the registration as required by the foreign exchange administrative department of the State Council. The foreign exchange or the settled foreign exchange funds under the capital account can be used if approved by the relevant authorities and foreign exchange administrative body.

- B. Pursuant to the *Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Roundtrip Investment via Overseas Special Purpose Companies* (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (“Notice No. 75”) promulgated on 21 October 2005 by the State Administration of Exchange of the PRC and implemented since 1 November 2005, domestic residents engaged in stock right financing and roundtrip investment via overseas special purpose companies shall apply to the local branch or department of foreign exchange administration for foreign exchange registration of overseas investments. Where a special purpose company experiences a “major capital modification event” such as capital increase or decrease, stock right assignment or exchange, merger or division, investment with long-term stock rights or credits, provision of guaranty to another party, etc., and is not involved in any roundtrip investment, the domestic resident shall, within 30 days as of the major capital modification event, apply to the foreign exchange office for going through the procedures of modification or archival filing of the foreign exchange registration of the overseas investments. In May 2007, the State Administration of Foreign Exchange of the PRC announced the implementation procedures for foreign exchange registration in accordance to Notice No. 75 in order to instruct and govern the relevant registration of domestic residents.

Foreign Trade and Customs

Pursuant to the *Foreign Trade Law of the PRC* (中華人民共和國對外貿易法) adopted on 12 May 1994 and amended on 6 April 2004 by the Standing Committee of the National People’s Congress and implemented since 1 July 2004, the State allows free import and export of goods and technologies, unless it is otherwise provided under the laws and administrative regulations. According to the currently valid catalogue of the automatic license of import and export published by the Ministry of Commerce, the raw milk powder imported from New Zealand that we have primarily applied in the production of our pediatric milk formula falls into the catalogue of goods to be imported through the automatic import licensing system.

Pursuant to the *Regulations of the PRC on the Administration of the Import and Export of Goods* (中華人民共和國貨物進出口管理條例) promulgated on 10 December 2001 and implemented since 1 January 2002 by the State Council, an automatic import license is required for the goods to be imported through the automatic import licensing system. Such license shall be granted by competent authority upon application. The customs shall clear the custom duty upon presentation of such automatic license in relation to the goods.

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Pursuant to *the Customs Law of the PRC* (中華人民共和國海關法) adopted on 22 January 1987 and amended on 8 July 2000 by the Standing Committee of the National People's Congress and implemented since 1 January 2001, unless otherwise provided, all imported and exported goods shall be declared and duties on them shall be paid by their consignor or consignee, or by a declaration enterprise entrusted by the consignor or consignee and approved by and registered with the customs. No enterprises or persons can make declarations without registering with customs or obtaining the relevant qualifications for declaration in accordance with the laws.

Advertising and Promotion

According to the *Advertising Law of the PRC* (中華人民共和國廣告法) adopted by the National People's Congress Standing Committee on 27 October 1994 and effective as of 1 February 1995, the contents of advertisements of foodstuffs must comply with public health requirements, and medical terms or terms easy to cause confusion with pharmaceuticals shall not be used, otherwise the advertising regulatory authorities shall order the responsible advertiser, advertising operator or disseminator to make rectification or cease dissemination, and shall confiscate the advertising fees and may additionally impose a fine of between one and five times the advertising fees. Where the case is serious, the advertising business shall be ceased according to law.

Jointly issued by, among others, the Ministry of Health, the Ministry of Broadcasting, Films and Television, the General Administration of Press and Publication and the State Administration of Industry and Commerce on 13 June 1995, the Administrative Rules Governing the Sale of Human Breast Milk Substitutes (母乳代用品銷售管理辦法) (the "Rules") require manufacturers and operators of human breast milk substitutes in the PRC to comply with the Rules. Substitutes for human breast milk referred to in the Rules include formula food products that target infants, as well as other dairy products, food and beverages that are modified, sold or otherwise provided for infants in the market and are suitable for wholly or partially substituting human breast milk, including bottle-fed supplementary food products, milk bottles and bottle nipples. Health administrative authorities under local governments at the county level or above shall be responsible for supervising and administering the sale and import of substitutes for human breast milk, and the administrative authorities for industry and commerce shall supervise and administer the production, sale, advertising and promotion of the substitutes for human breast milk within their scope of duties. The Rules contain provisions with respect to the sales and production, product packaging of and advertising and promotion of such substitutes for human breast milk.

Labor and Production Safety

- A. In accordance with the *Labor Contract Law of the PRC* (中華人民共和國勞動合同法), effective as of 1 January 2008, employers and employees should enter into written employment contracts to establish their employment relationship. When hiring employees, employers are required to inform the employees about their job duties, working conditions, working places, occupational hazards, production safety conditions, remuneration and other matters which employees may be concerned with. Employers and employees should fully perform their respective obligations in accordance with the commitments set forth in the employment contracts. Employers should pay remuneration to employees on time and in full in accordance with the commitments set forth in the employment contracts and the PRC

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regulations, strictly adhere to the working quota standards, and are prohibited from compelling employees to work overtime. At the time of termination, employers should arrange for the employee to transfer his/her file and social insurance relations within 15 days.

- B. Pursuant to the *Employment Promotion Law of the PRC* (中華人民共和國就業促進法) with effect from 1 January 2008, recruitment units should provide equal employment opportunities and fair employment conditions when recruiting employees. No employment discrimination will be allowed. The State protects female employees in that men and women have equal employment rights. Except as required by the State, employers must not refuse to employ women due to their gender or raise the employment standard for women. Additionally, employers are not allowed to include any restriction regarding the marital status or pregnancy of female employees in employment contracts. Employers should also provide suitable care to employees from minority ethnic groups in accordance with the laws, and not discriminate against the disabled. Furthermore, they are not permitted to reject employment on the basis of the employees having a contagious disease or discriminate against workers from rural areas.
- C. According to the *Regulation on Occupational Injury Insurance* (工傷保險條例) which took effect as of 1 January 2004, employers should pay occupational injury insurance fees for their employees.
- D. Under the *Interim Measures Concerning the Maternity Insurance of Enterprises Employees* (企業職工生育保險試行辦法), effective as of 1 January 1995, employers should pay maternity insurance fees for their employees.
- E. Under the *Interim Regulations Concerning the Levy of Social Insurance Fees* (社會保險徵繳暫行條例) implemented on 22 January 1999 and the *Interim Measures Concerning the Administration of the Registration of Social Insurance* (社會保險登記管理暫行辦法) adopted since 19 March 1999, employers in the PRC should register social insurance with the social insurance authorities, and make contributions to the basic pension insurance fund, basic medical insurance fund and unemployment insurance fund for their employees.
- F. According to the *Regulation Concerning the Administration of Housing Fund* (住房公積金管理條例) implemented on 3 April 1999 and amended on 24 March 2002, employers in the PRC must register with the housing fund management center. Employers will then need to open housing fund accounts with entrusted banks for their employees and contribute to the fund at a rate of not less than 5% of the employee's average monthly salary in the previous year.
- G. Pursuant to the *Production Safety Law of the PRC* (中華人民共和國安全生產法), effective as of 1 November 2002, production and operating enterprises should be equipped with the safety conditions for production as set out in the Production Safety Law of the PRC and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that does not comply with such safety conditions will not be allowed to engage in any production or operating activities. Production and operating units should provide education and training programs to their employees regarding production safety. The design, manufacturing, installation, application, checking, maintenance, reforming and abandonment of safety facilities should follow the national standards or industrial standards. In addition, production and operating units should provide employees with protective equipment that meet

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national standards or industrial standards, and educate and supervise them in strictly complying with the production rules and regulations and operating procedures of the relevant units regarding safety.

Consumer Protection

The principal legal provisions for the protection of consumer interests are set out in the *Consumer Protection Law of the PRC* (中華人民共和國消費者權益保護法), which was promulgated on 31 October 1993 and came into effect on 1 January 1994.

According to *the Consumer Protection Law of the PRC*, the rights and interests of the consumers who buy or use commodities for the purpose of daily consumption or those who receive services are protected and all manufacturers and distributors involved must ensure that the products and services will not cause damage to persons and properties.

Environmental protection

According to the *Environmental Protection Law of the PRC* (中華人民共和國環境保護法), which was promulgated and came into effect on 26 December 1989:

- 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;
- 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 thereof.

The purposes of the Environmental Protection Law of the PRC are to protect and enhance the living environment, prevent and cure contamination and other public hazards, and safeguard human health. The State Administration for Environmental Protection implements uniform supervision and administration of environmental protection work nationwide and formulates the national waste discharge standards. Local environmental protection bureaus at the county level and above are responsible for the environmental protection in their jurisdictions. Government authorities shall impose different penalties against persons or enterprises in violation of the Environmental Protection Law of the PRC depending on the individual circumstances and the extent of contamination. Such penalties include warnings, fines, decisions to impose deadlines for rehabilitation, orders to stop production, orders to re-install contamination prevention and rehabilitation facilities which have been removed or left unused, imposition of administrative actions against relevant responsible persons, and orders to close down those enterprises or authorities.