
REGULATIONS

REGULATORY OVERVIEW

Our business activities are principally based in the PRC. We are therefore required to comply with a number of PRC laws and regulations to carry out our operating activities. The relevant PRC laws and regulations applicable to the business of the Company and its PRC subsidiaries 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 adopted 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 1 July 1979 and revised on 4 April 1990 and 15 March 2001 respectively. Wholly foreign-owned enterprises are also governed by the Law on Foreign-owned Enterprises of the PRC (中華人民共和國外資企業法) (the “Foreign-owned Enterprise Law”) and its implementation rules. The Foreign-owned 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 12 April 1986 and was amended by the Standing Committee of NPC on 31 October 2000. The establishment procedures, approval procedures, registered capital and corporate structure of sino-foreign equity joint ventures and wholly foreign-owned enterprises are regulated by the above mentioned laws and regulations. As Weihai Electronic is a wholly foreign-owned enterprise and Weihai Cable, Changshu Connecting-Technology, Changshu Electronic, Changshu Cable, Dezhou Electronic, Wuhan Electronic are sino-foreign equity joint ventures, they shall abide by these laws.

Foreign investors shall also abide by Guidance Catalog of Industries for Foreign Investment (外商投資產業指導目錄) (the “Catalog”) and the Regulation on Guiding the Direction of Foreign Investment (指導外商投資方向規定) (the “Regulation”). The Catalog was promulgated on 28 June 1995 and was revised in 1997, 2002, and 2004. The currently effective Catalog 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) (the “NDRC”) on 31 October 2007, while the Regulation was promulgated by the State Council on 11 February 2002 and effective as of 1 April 2002. The Regulation classifies industries into four categories: encouraged, permitted, restricted and prohibited. Except otherwise stipulated by other laws and regulations, foreign investors are permitted to invest in industries which are not in the restricted or prohibited categories.

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 Company’s PRC subsidiaries have obtained all the necessary government approvals.

REGULATIONS

The PRC legal advisor of the Company, Deheng Law Firm, is of opinion that, in accordance with the currently effective Catalog and the Regulation, the industries in which our PRC subsidiaries engage are permitted for foreign investment.

The Directors confirmed, and the local government authorities supervising foreign investment certify that, since the establishment, our PRC subsidiaries 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 our PRC subsidiaries involves foreign exchange and the Company is engaged in exporting, the PRC legal advisor of the Company, Deheng Law Firm, is of opinion that such laws and regulations relating to foreign exchange shall apply to us and our PRC subsidiaries.

The Directors confirmed, and the local government authorities supervising foreign exchange certify that, since the establishment, the Company's PRC subsidiaries 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.

LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The principal regulations governing distribution of dividends paid by PRC enterprise include (i) the Company Law; (ii) the Foreign-owned Enterprise Law; (iii) the Rules for Implementation of the Law of PRC on Foreign-owned Enterprise (中華人民共和國外資企業法實施細則); (iv) the JV Law and the Rules for Implementation of the Law of PRC on Sino-Foreign Equity Joint Ventures. Under the above laws and regulations, domestic companies and 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 laws, no net assets other than the accumulated

REGULATIONS

after-tax profits can be distributed in the form of dividends. The PRC legal advisor of the Company, Deheng Law Firm, is of opinion that as our PRC subsidiaries are established and operate business activities in the territory of the PRC, such laws shall be applicable to us.

The Directors confirmed, since the establishment, the Company's PRC subsidiaries have complied with the relevant laws and regulations relating to dividend distribution without any penalties due to violation of the relevant laws and regulations relating to dividend distribution.

LAWS AND REGULATIONS RELATING TO PRODUCT CERTIFICATION

The Administrative Regulations on Compulsory Product Certification (強制性產品認證管理規定), which as promulgated by the State Administration for Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) on 3 July 2009, requires that products specified in certain catalogs must be certified and labeled with a certification sign before any sale, import or utilization in any other business activities. In addition, companies engaged in the manufacturing of the above mentioned products as listed in the 3C Catalog must obtain certification for their products and label their products with certification signs.

The PRC legal advisor of the Company, Deheng Law Firm, is of opinion that, according to the Catalog of the First Batch of Products subject to Compulsory Product Certificate (第一批實施強制性產品認證的產 品目錄) (the "3C Catalog"), which was jointly announced by the State Supervision Committee for Certification and Accreditation and the State Administration for Quality Supervision, Inspection and Quarantine of the PRC on 3 December 2001, certain products that are manufactured by the our PRC subsidiaries including wire, cable and connectors which are subject to Compulsory Product Certification, while the rest are not in need of certification, and all the necessary certifications required to meet the said regulations have been obtained by the our PRC subsidiaries.

LAWS AND REGULATIONS RELATING TO PRODUCT QUALITY

On 22 February 1993 the Standing Committee of NPC enacted Product Quality Law of the PRC (中華人民共和國產品質量法), 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 caused by the following defective products. Where the case is severe enough to constitute a crime, criminal responsibility shall apply.

- (a) The product sold does not have the attribute or function that it should have, and there was no advance explanation or statement made to that effect;
- (b) The product sold does not comply with the adopted standards indicated on the product or its package; or
- (c) The product sold does not comply with similar product quality as indicated by means of product instruction or sample.

On 7 November 1997 the former bureau of technical supervision of the State issued the Product Labeling Requirement (the "Requirement"). Pursuant to the Requirement manufacturers and sellers of products must properly label their products, for example, in respect of information on quality inspection certificates and address of the major manufacturing facilities.

REGULATIONS

The Directors confirmed, and the local government authorities supervising production quality certify that, since the establishment, our PRC subsidiaries have complied with the relevant laws and regulations relating to production quality without any penalties due to violation of the relevant laws and regulations relating to production quality.

MEASURES ON POLLUTION CONTROL OF ELECTRONIC INFORMATION PRODUCTS

According to the pollution control measures, poisonous and hazardous materials contained in the electronic information products must be controlled and shall not exceed the national and industrial limits. The importers and the manufacturers must indicate on the electronic information products the environment friendly use period, the specific poisonous and hazardous materials contained in such products and the packaging materials. The Directors confirmed that our PRC subsidiaries are complying with such requirements in its production.

Compulsory certification is required for products that fall into the Pollution Control Catalog of Electronic Information Products (電子信息產品污染控制重點管理目錄), which will be issued by the Certification and Accreditation Administration of the PRC. The first draft of this catalog has been published in October 2009 for public comment only and has not been officially promulgated. Until official guidelines are published, we do not know whether any of our products will be subject to compulsory certification.

According to our PRC legal advisor, Deheng Law Firm, as of the Latest Practicable Date, the Pollution Control Catalog of Electronic Information Products has not been officially promulgated and come into effect. Pursuant to the Procedures for Creating Pollution Control Catalog of Electronic Information Products, after the first draft of the catalog has been published for the public's consultation, the Ministry of Industry and Information Technology of the PRC will finalize the catalog with the National Development and Reform Commission, the State Environmental Protection Administration, the Ministry of Commerce, the General Administration of Customs, the State Administration for Industry and Commerce, and the Administration of Quality Supervision, Inspection and Quarantine before being submitted to the World Trade Organization for notification. Upon the completion of such notification, the catalog will be officially promulgated; however, there is no publicly announced timeframe as to when the catalog will be finalized, submitted to the World Trade Organization or promulgated.

LAWS AND REGULATIONS RELATING TO EXPORT OF PRODUCT

The Foreign Trade Law of the PRC (中華人民共和國對外貿易法), which was promulgated on 12 May 1994 and amended on 6 April 2004 by the standing committee of NPC, and the Measure for the Archival Filing and Registration of Foreign Trade Operators (對外貿易經營者備案登記辦法), which was promulgated by the Ministry of Commerce of the PRC on 25 June 2004, require that foreign trade operators who engage in the import or export of goods or technologies must register with the Ministry of Commerce of the PRC or another institution authorized by the Ministry of Commerce of the PRC. In addition, if a company imports or exports goods as consignee and consignor, it must register with local customs authority and obtain the PRC Customs Declaration Registration Certificate for Consignors and Consignees pursuant to the Provisions for the Registration of Customs Declaration Agents (中華人民共和國海關對報關單位註冊登記管理規定).

REGULATIONS

The PRC legal advisor of the Company, Deheng Law Firm, is of opinion that since the products that manufactured by our PRC subsidiaries involve exporting, such laws and regulations on export shall be applicable to our PRC subsidiaries. The Directors confirmed, and the local government authorities supervising export of product certify that, since the establishment, our PRC subsidiaries have complied with the relevant laws and regulations relating to export of product without any penalties due to violation of the relevant laws and regulations relating to export of product. Our PRC legal advisor, Deheng Law Firm, is of opinion that our PRC subsidiaries have complied with all relevant regulatory requirements and obtained all relevant permits and licenses for its operation.

The Directors confirmed that the export products of the Group were manufactured in accordance with the specifications provided by its overseas customers and the quality of the products has complied with different quality control standards as required by the overseas customers which the Directors understand have already taken into account the requirements of overseas regulations relevant to the overseas customers and such overseas customers are responsible for ensuring compliance with relevant 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 for non-compliance with any overseas regulations due to its export products' failure to comply with the specifications or standards required by the overseas customers up to the Latest Practicable Date. The Directors confirmed the Group has complied with all the relevant laws and regulations of overseas markets during the Track Record Period and up to the Latest Practicable Date.

LAWS AND REGULATIONS RELATING TO TAXATION

Seven of our PRC subsidiaries are foreign-invested companies incorporated in the PRC, while the rest are domestic-invested companies incorporated in the PRC. All of them shall pay tax in accordance with PRC laws and regulations 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 income

REGULATIONS

sources 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 incomes 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%.

Pursuant to the Notice on the Policy of Enforcing Transitional Preferential Treatment of Enterprise Income Tax (國務院關於實施企業所得稅過渡優惠政策的通知) promulgated on 26 December 2007, 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 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 until the fix term expires. In particular, enterprises which were subject to an income tax rate of 15% would be subject to an income tax rate of 18% in 2008, increasing to 20% in 2009, 22% in 2010, 24% in 2011, and 25% in 2012. Enterprises which are enjoying two years of 100% exemption and three years of 50% reduction on tax payments may continue to enjoy such exemption and reduction until the term of such privilege 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.

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, 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 Director confirmed, and the local government authorities supervising taxation certify that, since the establishment, our PRC subsidiaries 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 ENVIRONMENTAL PROTECTION

The principal laws and regulations governing environmental protection in the PRC that are applicable to the Company’s PRC subsidiaries are Environmental Protection Law of the PRC (中華人民共和國環境保護法) and the Administrative Regulations on Environmental Protection for Construction Project (建設項目環境保護管理條例). 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

REGULATIONS

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.

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 Directors confirmed, and the local government authorities supervising environmental protection certify that, since the establishment, our PRC subsidiaries 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 INTELLECTUAL PROPERTY

China has adopted legislation related to intellectual property rights, including trademarks, patents and copyrights. China is a signatory to all major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property (保護工業產權巴黎公約), the Madrid Agreement on the International Registration of Marks and Madrid Protocol (商標國際註冊馬德里協議), the Patent Cooperation Treaty (專利合作條約), the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure (國際承認用於專利程序的微生物保存布達佩斯條約) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (與貿易有關的知識產權協議).

Laws on Patents

China began reviewing patent applications and granting patents under the PRC Patent Law (中華人民共和國專利法) adopted in 1984 and revised in 1992, 2000, 2008 respectively. Under the PRC Patent law, invention patents are valid for twenty years and external design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

The patent prosecution system in China is different in many ways from that in other countries. The patent system in China uses the principle of first to file. This means that when more than one person file a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, China requires absolute novelty in order for an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China. Furthermore, patents issued in China are not enforceable in Hong Kong, Taiwan and Macau, each of which has an independent patent system.

Invention patent

The products seeking invention patent protection must possess such characteristics as novelty and innovation and the grant of invention patent is subject to disclosure and publication requirement. Normally, the patent administrative authority publishes the application 18 months after application is

REGULATIONS

filed, which may be shortened upon request by the applicant. The patent administrative authority conducts a substantive review as required by applicant within 3 years from publication or if necessary at its discretion to grant the invention patent, issue the certificate of invention patent and announce and register it if there is no cause for rejection of the application of the invention patent after substantive review and makes a decision. The term of protection is 20 years from the date of application. Once an invention patent is granted, unless otherwise permitted by law, no individuals or entities are permitted to engage in the manufacture, use, sale or import of the product protected by such patent or otherwise engage in the manufacture, use, sale or import of the product directly derived from applying the production technology or method protected by such patent, without consent of the patent holder.

Utility patent

The products seeking utility patent protection must also possess such characteristics as novelty and innovation. Utility patent is granted and registered upon application unless there are reasons for the patent administrative authority to reject the application after its preliminary review. The utility patent is also subject to the disclosure and publication requirement upon application. The term of protection is ten years from the date of application. Once an utility patent is granted, unless otherwise permitted by law, no individuals or entities are permitted to engage in the manufacture, use, sale or import of the product protected by such patent or otherwise engage in the manufacture, use, sale or import of the product directly derived from applying the production technology or method protected by such patent, without consent of the patent holder.

Design patent

The products seeking design patent protection must not be the same as or similar to those previously released in domestic or overseas publications, publicly used in the country or infringing upon third parties' legal rights. The application procedure and term of protection is the same as utility patent. Once a design patent is granted, no individuals or entities are permitted to engage in the manufacture, use, sale or import of the product protected by such patent without consent of the patent holder.

When a patent infringement dispute arises, the parties concerned usually settle. However, if a settlement cannot be reached, parties may either file a civil lawsuit or an administrative complaint at a provincial or municipal unit of the PRC State Intellectual Property Office (中華人民共和國國家知識產權局) ("SIPO"). At a party's request, a PRC court may issue a preliminary injunction. Damages for infringement are calculated as either the loss suffered by the patent holder arising from the infringement or the benefit gained by the infringer from the infringement. If it is difficult to ascertain damages in either manner, damages may be determined by using a reasonable multiple of the license fee under a contractual license. In China, the burden of proving infringement is on the patent holder. However, in cases of alleged production process patent infringement, the alleged infringing party has the burden of proving that there has been no infringement.

Although patent rights are national rights, the Patent Cooperation Treaty to which China is a signatory, allows applicants in one country to seek patent protection for an invention that may simultaneously exist in a number of other member countries by filing a single international patent application. The fact that a patent application in pending is no guarantee that a patent will be granted, and even if granted, the scope of a patent may not be as broad as the subject of the initial application.

REGULATIONS

Laws on Trademarks

Both the PRC Trademark Law (中華人民共和國商標法) adopted in 1982 and revised in 1993 and 2001, and the Implementation Regulation of the PRC Trademark Law (中華人民共和國商標法實施條例) adopted by the State Council of the PRC in 2002 give protection to the holders of registered trademarks. The Trademark Office under the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局商標局) handles trademark registrations and grants a term of ten years to registered trademarks, renewable every ten years. Trademark license agreements must be filed with the Trademark Office or its regional counterparts.

The PRC legal advisor of the Company, Deheng Law Firm, is of the view that as of the Latest Practicable Date, our PRC subsidiaries have possessed 45 patents and 3 trademarks respectively, while there are 44 patents and 7 trademarks pending for registration in China. The Directors confirmed since the establishment, our PRC subsidiaries have complied with the relevant laws and regulations relating to intellectual property without any penalties due to violation of the relevant laws and regulations relating to intellectual property.

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.

The PRC legal advisor of the Company, Deheng Law Firm, is of view that our PRC subsidiaries shall ensure the production safety during production and business operations in accordance with these laws. The Directors confirmed, and the local government authorities supervising production safety certify that, since the establishment, our PRC subsidiaries 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.

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 laws, a written labor contract shall be concluded within one month from the date when the employee commence working. 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 meet other conditions required by the laws, a labor contract without fixed term shall be concluded.

Pursuant to the Interim Regulations Concerning the Levy of Social Insurance Fees (社會保險費徵繳暫行條例) adopted on 14 January 1999 and promulgated as well as implemented on 22 January 1999 by the State Council, 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

REGULATIONS

the State Council, 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.

We have not paid, or have not been able to pay, certain past social insurance or housing fund contributions for and on behalf of some of our employees before June 2010 in strict compliance with the relevant PRC regulations. See “Business — Employees”.

Our PRC legal advisor, Deheng Law Firm is of the opinion that save for certain unpaid social insurance and housing fund in past years as disclosed above, our Group has complied with all relevant PRC laws and regulations in all material respects and obtained all relevant approvals/certificates which are necessary for its operations in PRC up to the Latest Practicable Date.

The Directors confirmed that the Group would keep an updated list of all relevant regulatory requirements and relevant personnel would be assigned to keep such a list updated on a monthly basis by maintaining frequent communications with relevant regulatory authorities and the Group’s PRC legal advisor. All updated relevant regulatory requirements would be circulated, in the form of internal memo, regularly to relevant staff at all departments and subsidiaries of the Group to ensure on-going compliance and the abovementioned assigned personnel would also be responsible for reviewing compliance-related work done and compliance records by all relevant departments and subsidiaries across the Group on a monthly basis. Our PRC legal advisor, Deheng Law Firm, is of the view that the foregoing measures in ensuring the on-going compliance with PRC regulatory requirements are effective and practicable.