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This section summarises of certain aspects of PRC laws and regulations 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 guide market access of foreign capital, and sets out in detail categories of industries in which foreign investment is encouraged, restricted or prohibited. Any industry that is not listed in the Catalogue is a permitted industry.

Taxation

Income tax

Before the Income Tax Law 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 have institutions or establishments in special economic zones engaged in production or business operations, 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 of a production nature established in coastal economic open zones or in the old urban districts of cities where Special Economic Zones or Economic and Technological Development Zones are located was levied at the reduced rate of 24%. Any foreign-invested enterprise of a production nature scheduled to operate for a period of more than ten years was exempted from income tax for two years commencing from the first profit-making year and allowed a 50% income tax reduction in the following three consecutive years.

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After the promulgation of the Income Tax Law on 16 March 2007, the income tax for both domestic and foreign-invested enterprises were set at the same rate of 25% effective from 1 January 2008. However, a transitional period has been given to enterprises that received preferential tax treatments granted by relevant tax authorities under the Foreign-Invested Enterprise and Foreign Enterprises Income Tax Law. Enterprises that were subject to an enterprise income tax rate lower than 25% continue to enjoy the lower rate but will gradually be required to pay under the new tax rate after the effective date of the Income Tax Law. Enterprises that were 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 (the “**Provisional Regulations on VAT**”), which became effective from 1 January 1994 and were amended on 5 November 2008, and its implementation rules, all entities or individuals in the PRC engaged 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.

Furthermore, pursuant to the Provisional Regulations on VAT, with regard to consumer goods for the self-consumption by taxpayers and which are specified by the competent authorities for financial and taxation affairs under the State Council, the “input VAT” shall not be credited against the “output VAT” involved. Besides, while the transportation expenses incurred in the sales and/or purchase of goods or in the course of production and operation could be deducted as the “input VAT” at the deduction rate of 7%, such transportation expenses for goods specified in the Provisional Regulations on VAT and for the sales of tax-free goods shall not be credited against the “output VAT” involved.

Under the Provisional Regulations on VAT, for the sales of goods or taxable services, the obligation to pay the VAT shall arise on the date on which the sales sum is received or the evidence for demanding the sales sum is obtained; and where the relevant invoice is issued beforehand, the obligation to pay the VAT shall arise on the date of the issuance of the invoice. The Provisional Regulations on VAT has specified the time limit for paying the VAT as follows: (i) taxpayers to whom the tax payment period of one month or one quarter applies shall make a tax return and pay tax within fifteen days of the expiration of such period; (ii) taxpayers to whom the tax payment period of one day, three days, five days, ten days or fifteen days applies shall prepay tax within five days of the expiration of such period; and (iii) taxpayers who import goods shall pay tax within fifteen days of the date on which special receipts for import VAT are issued by competent customs authorities.

Urban maintenance and construction tax and Education surcharge

According to the Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), which was promulgated on 18 October 2010, and became effective from 1 December 2010, the Tentative Regulations of the PRC on Urban Maintenance and Construction Tax, promulgated in 1985, the Tentative Rules on Levy of Education Surcharge, promulgated in 1986, and other regulations and rules promulgated by the State Council and other competent departments of the relevant financial

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and tax authorities shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Pursuant to the Tentative Regulations on Urban Maintenance and Construction Tax of the PRC (中華人民共和國城市維護建設稅暫行條例), which was promulgated on 8 February 1985 and became effective from 1985, and the Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax (國家稅務總局關於城市維護建設稅徵收問題的通知), which was promulgated on 12 March 1994 and became effective from 1 January 1994, all organisations or individuals who are required to pay consumption tax, value-added tax and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, value-added tax and business tax which a taxpayer actually pays and shall be made simultaneously when the latter are paid. Furthermore, the rates of urban maintenance and construction tax shall be set at 7%, 5% and 1% for a taxpayer located in a city, in a county town or town and in a place other than a city, county town or town, respectively.

In accordance with the Tentative Provisions on the Collection of Education Surtax (徵收教育費附加的暫行規定), which became effective on 20 August 2005, all organisations and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay education surtax in accordance with these Provisions. The education surtax rate is set at 3% of the amount of value-added tax, business tax and consumption tax actually paid by each organisation or individual, and the surtax shall be paid simultaneously with the value-added tax, business tax and consumption tax.

Environmental protection

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

- environmental assessment must be conducted on a construction project and such environmental impact statement must be approved by the environmental authority before the construction project can be approved;
- any entity that discharges pollutants must establish a responsibility system for environmental protection 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 for the excessive discharge.

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Violation of the Environmental Protection Law may result in fines, suspension of operations, closure of operations or even criminal liabilities.

Foreign currency exchange and dividend distribution

Foreign currency exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Rules of the PRC (the “**Foreign Exchange Administration Rules**”), promulgated by the State Council on 29 January 1996, 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 is not freely convertible for capital account items, such as direct investment, loans 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 the 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 pay dividends only 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

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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 regardless of whether he/she has a PRC statutory identification certificate):

- (1) individuals who have domestic permanent residence and leave this 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 temporary to facilitate management of their investment in the PRC; and (ii) our PRC legal advisers 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 assets, local laws will apply. However, domestic businesses that hold share rights in 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 (“**CSRC**”) 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 CSRC.

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, contains a list of 406 administrative approval items to be cancelled. As a result, inspection by CSRC of a legal opinion issued by a PRC lawyer related to domestic rights

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and interests involved in issuing of shares and listing of the overseas company (provided in the Announcement 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), is now abandoned.

CSRC 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, a legal opinion issued by a PRC lawyer, related to domestic rights and interests involved in issuing of shares and listing of overseas companies, has not been accepted by CSRC. If the legal opinion issued by a 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 were promulgated by the Ministry of Commerce, the State Asset Supervision and Administration Commission, CSRC, the State Administration of Taxation, the State Administration for Industry and Commerce and SAFE, became effective on 8 September 2006 and apply in the event that foreign investors acquire PRC enterprises. We were advised by our PRC legal adviser 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.