
REGULATIONS

OVERVIEW

As at the Latest Practicable Date, the Group's main business operations are based in Hong Kong and in the PRC. The Group is principally subject to the relevant laws and regulations in Hong Kong and in the PRC. This section contains a brief description of certain aspects of PRC laws and regulations, which are relevant to the Group's operations and business.

Establishment of foreign invested enterprises

Pursuant to the "Catalogue of Industries for Guiding Foreign Investment (2007 Revised)" promulgated by the Ministry of Commerce and National Development and Reform Commission on 31 October 2007 and effective from 1 December 2007, and based on the scope of operation of the Group's operating subsidiaries in the PRC, they are classified as "permitted" foreign-invested enterprises, and the manufacture and sale of computers and computer peripheral equipment, electronic parts and components are also "permitted".

The Group's PRC subsidiary, Dongguan Baineng, has obtained signed confirmation letters dated 18 January 2011 and 7 November 2011, respectively from Dongguan Foreign Trade and Economic Cooperation Bureau (東莞市對外貿易經濟合作局), confirming that no violation of foreign investment laws and regulations has been discovered since Dongguan Baineng's incorporation, and Dongguan Baineng have not been subject to any administrative penalties.

Laws, regulations and regulative documents related to the business of processing trade

The "Provisional Measures for the Management of Examination and Approval of Processing Trade" was promulgated on 27 May 1999 and implemented on 1 June 1999 pursuant to the "Circular of the Ministry of Foreign Trade and Economic Cooperation on Printing and Distributing the Provisional Measures for the Management of Examination and Approval of Processing Trade". The measures require that the commencement of processing trade by operating enterprises must be filed with the relevant foreign economic and trade authorities for prior approval and obtain a permit for processing trade issued by the review and approval authority.

The "Regulatory Measures for the Management of Processing Trade Goods by the Customs of the People's Republic of China" (Promulgated on 26 February 2004 as Order of the General Administration of Customs No. 113 pursuant to the Order of the General Administration of Customs No. 168 "Amendments to the 'Decisions of the General Administration of Customs on the Regulatory Measures for the Management of Processing Trade Goods by the Customs of the People's Republic of China'"), the local customs

REGULATIONS

authority manages the filing, import and export declaration, processing, regulation, verification and other procedures related to processing trade goods of processing trade enterprises. The operating enterprise shall file the processing trade goods with the local customs authority of the processing enterprise; maintain a register of processing trade, special customs declaration forms for processing trade import/export goods and other forms and certificates for customs declaration procedures of processing trade goods; process the imported materials and items for export within the required period and file with the customs authority for verification within 30 days from the date of export of the last batch of finished goods under the register of processing trade or the date of expiry of the register of processing trade. It is also required that domestic sale of tax-free materials or finished goods imported for processing trade due to certain reasons is subject to imposition of tax and interest rate for deferred payment of tax on the imported tax-free materials based on the valid approval document for domestic sale from the relevant authority; and submit import permit to the customs for imported materials and items subject to import restrictions of the PRC Government.

The PRC Legal Advisers have confirmed that the Group's PRC subsidiaries have obtained the necessary certificates, approval, registrations and filings by the relevant PRC authorities in relation to processing trade and each of the same is in full force and effect during the Track Record Period and up to the Latest Practicable Date.

The Group's PRC subsidiaries, Dongguan Baineng and Dongguan Tianpei, have obtained signed confirmation letters dated 28 January 2011 and 11 November 2011 respectively from Dongguan Administration for Industry and Commerce (東莞市工商行政管理局), confirming that there are no records indicate that Dongguan Baineng and Dongguan Tianpei have violated the laws and regulations related to the administration of industry and commerce.

Dongguan Baineng has also obtained signed confirmation letter dated 15 February 2011 and 7 November 2011 respectively from PRC Taiping Customs (中華人民共和國太平海關), confirming that Dongguan Baineng has complied with all applicable customs laws and regulations and is not subject to any customs administrative penalties since its incorporation in 2009 up to the confirmation date.

Laws and regulations related to environmental protection

On 29 November 1998, the State Council promulgated the "Administrative Regulation on Environmental Protection in relation to Construction projects", and on 28 October 2002, the Standing Committee of the National People's Congress approved the "Law of the People's Republic of China on Appraising of Environment Impacts" which came into effect on 1 September 2003. Pursuant to the above law and regulation, the PRC government sets

REGULATIONS

up a system to assess the environment impact of construction projects and implements classified management of the environmental impact assessment in accordance with the level of impact. For any construction project that may cause significant environmental impact, an environmental impact assessment report shall be prepared to fully assess the environmental impact caused. For any project that may cause mild environmental impact, an environmental impact report shall be prepared to analyse or assess the environmental impact caused. For any project that may cause very little environmental impact and requires no environmental impact assessment, an environmental impact log shall be filled in. Enterprises responsible for the project construction shall submit the above environmental impact assessment documents to the relevant environmental protection administration for review and approval. Any enterprise that fails to submit the above environmental impact assessment documents in accordance with the laws and regulations of the PRC, or in case these documents are not approved upon review by the relevant administration departments, the department responsible for approving the relevant project shall not approve the project, and the enterprise shall not proceed with the construction of the project.

Pursuant to the “Environmental Protection Law of the People’s Republic of China” passed and promulgated by the Standing Committee of the National People’s Congress on 26 December 1989, the environmental protection administration of the State Council stipulated the national standard for environmental quality. For projects not stipulated under the national standard for environmental quality, the PRC Government at the province, autonomous region and municipal level may stipulate the local standard for environmental quality and file the relevant standard with the environmental protection administration of the State Council.

The Group’s PRC subsidiaries, Dongguan Baineng and Dongguan Tianpei, have obtained signed confirmation letters dated 27 January 2011 and further confirmation letters dated 14 November 2011 from Dongguan Environmental Protection Bureau (東莞市環境保護局), confirming that Dongguan Baineng and Dongguan Tianpei have complied with applicable laws and regulations related to environmental protection, no pollution accidents and environmental non-compliance activities have been committed by Dongguan Baineng and Dongguan Tianpei since 1 January 2008 up to the confirmation date.

The operation of enterprises must abide the relevant environmental laws and regulations in the PRC, which include the “Law of the People’s Republic of China on the Prevention and Control of Water Pollution”, the “Law of the People’s Republic of China on the Prevention and Control of Atmospheric Pollution”, the “Law of the People’s Republic of China on the Prevention and Control of Pollution from Environmental Noise”, and the “Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste”. The environmental laws and regulations manage extensive issues related

REGULATIONS

to the environment, including air pollution, noise emission, and wastewater and water discharge. Pursuant to these environmental laws, all business operations that may cause environmental pollution and other public hazards must introduce environmental protection measures in their plants and establish a reliable system for environmental protection. As required, these operations shall adopt effective measures to prevent and control the level of environmental pollution and hazards produced during the process of production, construction or other activities in the form of exhaust fume, waste liquids, solid waste, dust, pungent gases, radioactive materials, noise, vibrations and electromagnetic radiations.

Laws and regulations related to taxation

The “Enterprise Income Tax Law of the People’s Republic of China” and its implementing rules came into effect on 1 January 2008, requiring all foreign-invested enterprises and domestic enterprises to pay enterprise income tax at a uniform rate of 25%. Apart from resident enterprises, non-resident enterprises shall also pay enterprise income tax for income originated from the PRC. For non-resident enterprise that have not set up institutions or establishments in the PRC or institutions or establishments are set up but there is no actual relationship with the income obtained by the institutions or establishments, they shall pay enterprise income tax for income originated from the PRC at the tax rate of 20%. Dividends, bonuses, and other equity investment proceeds distributed between qualified resident enterprises, and dividends, bonuses, and other equity investment proceeds obtained by non-resident enterprises setting up institutions or establishments in the PRC that has an actual relationship with the institutions or establishments shall be tax free.

Pursuant to the “Arrangement Between the Mainland and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion” signed on 21 August 2006 (in the PRC, effective for proceeds obtained in taxable years beginning on 1 January 2007 and after; in the HKSAR, effective for proceeds obtained in taxable years beginning on 1 April 2007 and after), companies incorporated in Hong Kong shall pay withholding tax at a rate of 5% for the dividends received from its PRC subsidiary, provided that the Hong Kong company holds 25% or more interests in the PRC subsidiary at the time of dividend distribution of the PRC subsidiary. In case the Hong Kong company holds less than 25% in that company, tax is payable at a rate of 10%.

The PRC Legal Advisors have advised that the Group’s PRC subsidiaries have been duly registered with relevant taxation authorities and obtained all requisite taxation registration certificates necessary under PRC laws and regulations. Such requisite taxation registration certificates are current and valid as at the date of the general PRC legal opinion issued by the PRC Legal Advisors.

REGULATIONS

The Group's PRC subsidiaries, Dongguan Baineng and Dongguan Tianpei, have obtained signed confirmation letters dated 14 January 2011 from Dongguan State Taxation Bureau (東莞市國家稅務局), confirming that since their incorporation, Dongguan Baineng and Dongguan Tianpei have filed and paid taxes in accordance with applicable tax laws and regulations, there are no records indicate that Dongguan Baineng and Dongguan Tianpei have committed any tax illegal activities, Dongguan Baineng and Dongguan Tianpei are not subject to any tax administrative penalties.

The Group's PRC subsidiaries, Dongguan Baineng and Dongguan Tianpei, have obtained signed confirmation letters dated 21 January 2011 from Dongguan Municipal Local Taxation Bureau (東莞市地方稅務局), confirming that other than Dongguan Tianpei was fined of RMB160 due to an overdue filing of stamp duty on 27 May 2010, no violation of taxation laws and regulations situation have been discovered up to the confirmation date. Dongguan Tianpei confirmed that the above mentioned non-compliance has been duly rectified.

Laws, regulations and regulative documents related to labour, Social Insurance and housing provident fund

The "Labour Contract Law of the People's Republic of China" which came into effect on 1 January 2008 requires that an employer and its employee shall enter into a labour contract in written form, and also stipulates the legal liability of violating the relevant requirements. If the employer fails to enter into a written labour contract with the employee for one month to one year from the date of actual employment, the employer shall pay to the employee twice his/her salary for the relevant month. If the employer fails to enter into a written labour contract with the employee after one year from the date of actual employment, a labour contract with unspecified term shall be deemed to be entered into by the employer and the employee. The employer shall not force the employee to work overtime or do so in a disguised form. If the employer arranges for the employee to work overtime, it shall pay him/her overtime payment in accordance with the relevant state regulations. In addition, the reward for labour shall not be lower than the local minimum wage standard, and the employer shall timely pay the labour reward to the employee in full amount.

Pursuant to the "Labour Law of the People's Republic of China" which came into effect on 1 January 1995, enterprises and institutions shall establish and perfect their work safety and hygiene systems, strictly comply with the relevant work safety and hygiene requirements and standards, and educate their employees on matters related to work safety and hygiene. The work safety and hygiene facilities shall comply with the required standards of the PRC Government. Enterprises and institutions shall provide to their employees work safety and hygiene conditions that comply with the national requirements and the labour protection rules.

REGULATIONS

On 24 January 2011 and 9 November 2011, respectively, Dongguan Human Resources Bureau (東莞市人力資源局) issued a confirmation to each of Dongguan Baineng and Dongguan Tianpei confirming that they complied with the laws and regulations related to labour in the PRC, and did not have any record of penalty for breaching the laws and regulations related to labour in the PRC.

Social Insurance is the core of social security system, which consists of various funds in the PRC, including pension insurance, medical insurance, unemployment insurance and occupational injuries insurance (details may vary with the requirements of laws in different regions). Employers have the responsibility to contribute to the relevant social security institutions the part of Social Insurance premium payable by the employer, and withhold and submit to the relevant social security institutions the part of Social Insurance premium payable by the employee. If an employer fails to pay the Social Insurance premium or withhold the payment payable by the employee, it may be ordered by the relevant labour and social security authorities or the department of taxation to make the relevant payment during a specific period of time and may be subject to fines.

However, the PRC Legal Advisors have advised that the abovementioned PRC subsidiaries have not made Social Insurance and housing provident fund contributions for certain of their employees in accordance with relevant PRC laws and regulations during the Track Record Period.

The Group's PRC subsidiaries are required by the relevant PRC laws and regulations to make contributions, by way of employer's contributions and employees' contributions, to various Social Insurance schemes. The PRC employees of the Group who are migrant workers from provinces outside Guangdong have difficulty in transferring their Social Insurance to their home cities when they leave Dongguan. For such reason, some of these migrant refuse to participate in Social Insurance schemes and have deductions made to their salaries to fund the employees' contributions. Accordingly, the Group did not enroll and make contributions in respect of Social Insurance schemes for the employees who did not participate. The Group started to enroll and make contributions for such PRC employees in the first quarter of 2011 and according to the letters of confirmation issued by Dongguan City Social Insurance Authority Houjie Branch (東莞市社會保障局厚街分局) dated 9 March 2011 and 3 November 2011, respectively, each of Dongguan Baineng and Dongguan Tianpei (i) complied with the applicable Social Insurance laws and regulations in relation to Social Insurance; (ii) was not subject to any administrative penalties due to the violation of Social Insurance Laws and regulations; and (iii) there was no existence of default on Social Insurance payment since incorporation.

REGULATIONS

Each of the Controlling Shareholder and surviving Co-founders agreed and undertook with each of the Group Companies that it will jointly and severally indemnify and at all times keep the Group Companies and each of them fully indemnified on demand against:

- (a) any liabilities to pay Social Insurance and housing provident funds contributions for or in relation to the employees of the Group prior to the date on which the conditions stated in the paragraph headed “Conditions” under the section headed “Structure and conditions of the Offering” in this prospectus being fulfilled (the “Effective Date”) as required by applicable laws and regulations of the PRC, and in the case of Social Insurance, to the extent if such payment is in excess of the provisions made in the accountants’ report as set out in the Appendix I to this prospectus; and
- (b) any fines and/or penalties that may be imposed by the relevant authorities of the PRC in connection with the non-payment within the relevant specified period (if any) of Social Insurance and housing provident funds prior to the Effective Date.

The PRC Legal Advisers advised that an employer who fails to declare the due Social Insurance contribution amount may be ordered by the relevant authority-in-charge to rectify the problem within a stipulated period. In serious cases, a fine in the amount between RMB1,000 and RMB5,000 may be imposed on officers-in-charge who are directly responsible and other officers who are directly responsible. In more serious cases, a fine in the amount between RMB5,000 and RMB10,000 may be imposed on the officers who are directly responsible and other officers who are responsible. An employer who fails to withhold and pay its portion of Social Insurance contributions may be ordered by the relevant authority to pay the outstanding contributions within a stipulated period. In the case that payment is still not made within the stipulated period, the employer may be ordered by the relevant authority to pay the overdue amount, and also a late payment fee of 0.2% of the cumulative outstanding amount per day, calculated from the date the relevant Social Insurance contribution amount becomes overdue until the date that full payment is made. Furthermore, employees of the Group have the right to ask the Group to pay the unpaid employees’ contributions, pay any associated costs and compensation, or use the non-payment of such contributions as grounds to terminate their employment with the Group and seek the relevant compensation.

Historically, the PRC employees of the Group were reluctant to make employees’ contributions to the housing provident funds through deductions from their salaries and the Group has not registered for housing provident fund until 16 May 2011. The PRC Legal Advisers advised that an employer who fails to pay, or pays an amount less than, its portion of the housing provident fund contributions may be ordered by the housing provident fund management centre to pay any outstanding contributions into a designated

REGULATIONS

account within a stipulated period. In the event that payment is still not made within the stipulated period, the Housing Provident Fund Administration Centre (住房公積金管理中心) may apply to the court for mandatory enforcement. On the basis that the Group will pay the outstanding contributions within the stipulated period, the Group will not be subject any fine.

Pursuant to the requirements of the “Regulation on the Administration of Housing Accumulation Funds” (2002 Amendments) and the relevant laws, regulations and regulative documents, an employer shall pay housing provident fund for its employees who each has established a labour relationship and entered into a labour contract with the employer. The employer shall register for housing provident fund payment at a housing provident fund management centre and open a housing provident fund account for its employees at an entrusted bank. The employer shall timely make payments for the housing provident fund in full amounts. If the employer violates the relevant requirements, it will be ordered by the housing provident fund management centre to complete the procedures in a specific timeframe.

The Group’s PRC Legal Advisers have advised that, in respect of the housing provident fund registration and payment shortfall, the housing provident fund authorities may order Dongguan Baineng and Dongguan Tianpei, respectively, to comply within specified periods. Failure to comply with the registration requirement may each result in fines between RMB10,000 and RMB50,000. The housing provident fund authorities may order the Group to make payment against the unpaid contributions within a specified period. In the event that the Group does not comply, the housing provident fund authorities may obtain mandatory enforcement court orders. Historically the PRC employees of the Group were reluctant to make employees’ contributions to the housing provident funds through deductions from their salaries and the Group has not registered for housing provident fund until 16 May 2011. The PRC Legal Advisers made enquiries with the Dongguan Housing Provident Fund Administration Centre (東莞市住房公積金管理中心) in April 2011 and advised that in relation to entities which are unregistered and had not contributed to housing provident funds, if there is no complaint against such entities, the said centre will not request such entities to pay the amount in arrears. In the event that there is a complaint by an employee, the Centre will investigate each case on its merit and determine whether to pursue the arrears. In the event that such arrears are pursued, the entities and the employees concerned are responsible for their respective proportion of employers’ and employees’ contributions.

Dongguan Baineng and Dongguan Tianpei have effected their respective housing provident fund Scheme registrations with the Dongguan Housing Provident Fund Administration Centre on 16 May 2011. Thus, fines in respect of non-registration are no longer applicable.

REGULATIONS

Considering that (1) some employees of the abovementioned subsidiaries are from the rural areas outside of Dongguan city, who, the Company understands, will have difficulty in transferring their Social Insurance contributions to other localities when they leave Dongguan city and, as such, some of these rural workers are reluctant to participate in Social Insurance schemes and make their own portion of contribution; (2) the PRC Legal Advisers made enquiries in October 2010 and November 2011, respectively, with the Dongguan City Social Insurance authority and established that there are no implemented policy regarding the repayment of the unpaid contributions in Dongguan city (According to article 7 of the PRC Social Insurance Law (《中華人民共和國社會保險法》), the local people's government Social Insurance administration departments at county level or higher are responsible for administering Social Insurance in the PRC. Accordingly, the PRC Legal Advisers confirmed that the Dongguan Social Insurance Bureau (東莞市社會保障局) is the competent authority to consider the said issue); (3) The PRC Legal Advisers made enquiries with the Dongguan Housing Provident Fund Administration Centre (東莞住房公積金管理中心) and advised that in relation to entities which are unregistered and had not contributed to housing provident funds, if there is no complaint against such entities, the said centre will not request such entities to pay the amount in arrears. In the event that there is a complaint by an employee, the Centre will investigate each case on its merit and determine whether to pursue the arrears. In the event that such arrears are pursued, the entities and the employees concerned are responsible for their respective proportion of employers' and employees' contributions; (4) according to article 20 of the *Labour Protection Monitoring Regulations* (《勞動保障監察條例》) the Labour Protection Administrative Department (勞工保障行政部門) will not investigate cases of breach of the laws and regulations in relation to labour protection which are not discovered by the said department, reported or complained within two years; (5) the Group has received the abovementioned confirmations from each of the Dongguan Human Resources Bureau (東莞市人力資源局) and Dongguan Social Security Bureau Houjie Branch (東莞市社會保障局厚街分局); (6) the Group's PRC subsidiaries have never received any payment notification or order from the Dongguan Social Insurance Bureau (東莞市社會保障局) or Dongguan Housing Provident Fund Administration Centre (東莞市住房公積金管理中心), nor have they received any investigation, questioning or penalty from the relevant government authorities due to violation of the relevant Social Insurance and housing provident fund laws, regulations, policies, or notification or order from other government authorities, the PRC Legal Advisors are of the opinion that although the Group's PRC subsidiaries are not in strict compliance with relevant Social Insurance and housing provident fund rules and regulations, the possibility of the Group's PRC subsidiaries being penalised for the non-compliance is quite small.

REGULATIONS

The Group had made provisions in its financial statements in respect of Social Insurance shortfalls, which were computed based on relevant prevailing laws and regulations in the PRC. The provisions for Social Insurance contributions as at 30 June 2011 were approximately HK\$32.5 million (please refer to note 25(a) of the Accountants' Report).

In view of the foregoing, the Directors are of the view that the above non-compliance will not have a material and adverse impact on the Group's business operations.

Laws and regulations related to foreign exchange management

Pursuant to the "Regulation of the People's Republic of China on Foreign Exchange Administration" promulgated by the State Council on 29 January 1996 and amended on 14 January 1997 and 1 August 2008 respectively, Renminbi is freely convertible only to the extent of current account items, such as dividend distributions, interest payments, and trade and services related foreign exchange trades that complied with certain procedural requirements. Capital account items, such as direct equity investments, loans and repatriation of investments, are subject to the prior approval of SAFE or other local authorities for the conversion of Renminbi into a foreign currency and remittance of the foreign currency outside the PRC.

The Group's PRC subsidiary, Dongguan Baineng, has obtained signed confirmation letter dated 24 January 2011 and a further confirmation letter dated 11 November 2011 from State Administration of Foreign Exchange Dongguan Branch (東莞市國家外匯管理局東莞市中心支局), confirming that no non-compliance records have been discovered with respect to foreign exchange since Dongguan Baineng's incorporation.

Save as disclosed above the non-compliance in respect of Social Insurance and housing provident funds contributions during the Track Record Period, the PRC Legal Advisors opined that during the Track Record Period and up to the Latest Practicable Date, the Group's PRC subsidiaries complied with all relevant regulatory requirements and obtained all relevant and necessary permits and licences for its operations. The Group intends to establish an internal audit department to carry out internal control review of the Group and to monitor ongoing compliance with relevant regulatory requirements.