

REGULATIONS

This section sets forth a summary of the most significant regulations or requirements that affect the Group's business activities in China, Europe and the United States and the Shareholders' right to receive dividends and other distributions from the Group.

REGULATORY REQUIREMENTS IN THE PRC

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

The establishment, operation and management of corporate entities in China are governed by 《中華人民共和國公司法》 (the Company Law of the PRC) (the “**Company Law**”), which was promulgated by the Standing Committee of the National People's Congress of the PRC 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.

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 《中華人民共和國外資企業法》 (the 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 《中華人民共和國外資企業法實施細則》 (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 《外商投資產業指導目錄》 (the Catalogue for the Guidance of Foreign Investment Industries) (the “**Catalogue**”), which was amended and promulgated by the Ministry of Commerce and the National Development and Reform Commission of the PRC on 31 October 2007. The Catalogue, as amended, became effective on 1 December 2007 and contains specific provisions that guides market access of foreign capital 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.

Dividend distribution

The principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include the Wholly Foreign-owned Enterprise Law, which was promulgated on 12 April 1986 and amended on 31 October 2000 and 《中華人民共和國外資企業法實施細則》 (the Implementation Regulation under the Wholly Foreign-owned Enterprise Law), which was promulgated on 12 December 1990 and amended on 12 April 2001. Under these laws and regulations, wholly foreign-owned enterprises in China can only pay dividends from accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds until the accumulated reserve amounts to 50% of its registered capital. Such enterprises are also required to set aside funds for 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.

REGULATIONS

Import or export of products

《中華人民共和國對外貿易法》(the Foreign Trade Law of the PRC), which was promulgated by the Standing Committee of the National People's Congress of the PRC on 12 May 1994 and amended on 6 April 2004, and 《對外貿易經營者備案登記辦法》(the Measures for the Archival Filing and Registration of Foreign Trade Business Operators), which was promulgated by the Ministry of Commerce of the PRC on 25 June 2004 and became effective on 1 July 2004, require that foreign trade operators engaging in the import or export of goods or technologies to register with the Ministry of Commerce of the PRC or the institutions authorised 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 《中華人民共和國海關進出口貨物收發貨人報關註冊登記證書》(the Declaration Registration Certificate of the Customs of the PRC for the Consignor or Consignee of Imported or Exported Goods) pursuant to 《中華人民共和國海關對報關單位註冊登記管理規定》(the Provisions of the Customs of the PRC for the Administration of Registration of Declaration Entities). Furthermore, pursuant to 《中華人民共和國進出口商品檢驗法實施條例》(the Regulations for the Implementation of the Law of the PRC on Inspection of Imported and Exported Goods), which was promulgated by the State Council of the PRC on 31 August 2005, a consignee or consignor of imported and exported goods shall, before filing an application for inspection, conduct the procedures for archiving at the entry-exit inspection and quarantine authority.

Environmental protection

The Environmental Protection Bureau of the PRC is responsible for the overall supervision of environmental protection matters in China, formulation of nationwide environmental quality and discharge standards and supervision of the environmental system of China. The environmental protection bureau at the county level or above are responsible for environmental matters within its jurisdiction.

Pursuant to 《中華人民共和國環境保護法》(the Environmental Protection Law of the PRC) (the “**Environmental Protection Law**”), which was promulgated and became effective on 26 December 1989, the environmental protection authority of the State Council of the PRC is responsible for promulgating state standards for the discharge of pollutants. Provincial governments, local governments of autonomous regions under the direct jurisdiction of the PRC central government, and of municipalities may promulgate local standards for the discharge of pollutants on matters not clearly defined and regulated by state standards, conditional upon reporting of such new standards to the relevant environmental protection administrative authorities under the State Council of the PRC for record.

Pursuant to 《中華人民共和國環境影響評價法》(the Law on Appraising of Environment Impacts of the PRC), which was promulgated on 28 October 2002 and became effective on 1 September 2003, manufacturers must prepare and submit, prior to commencement of work, an environmental impact document of the relevant construction project, to the relevant governmental authority for approval. In addition, pursuant to 《建設項目環境保護管理條例》(the Regulations on the Administration of Environmental Protection of Construction Projects), which was promulgated by the State Council of the PRC on 29 November 1998, only after the supporting environmental protection facilities required for a construction project has passed the examination and acceptance may that construction project be put into formal production or use.

REGULATIONS

The Environmental Protection Law requires any facility producing pollutants or other hazardous matters during its operation to undertake environmental protection measures and to establish an environmental protection responsibility system, which shall include the adoption of effective measures to control and deal with waste gas, waste water, debris, powder or other wastes. Any physically-discharged pollutants must be registered with the relevant environmental protection authorities.

Remedies for contravention of the Environmental Protection Law include warnings, damages or penalties. Any constructing enterprise that fails to set up prevention of pollution measures in accordance with the environmental protection standards for its construction project may be ordered to stop production or operation temporarily and fined. The responsible person shall bear criminal liability for serious contravention of environmental protection laws and regulations which lead to property loss or human injuries or death.

Occupational health and safety

Pursuant to 《中華人民共和國勞動合同法》 (the Labour Contract Law of the PRC), which became effective on 1 January 2008, employers must establish a complete management system to protect the rights of employees, including the setting up of a system regulating occupational health and safety to provide on-the-job training for the employees and avoid industrial accidents.

Pursuant to 《中華人民共和國安全生產法》 (the Production Safety Law of the PRC), which became effective on 1 November 2002, manufacturers must establish complete management systems in accordance with the applicable laws and regulations to ensure safe production. Manufacturers which fail to meet the relevant legal requirements are not allowed to conduct manufacturing activities.

Tax law

On 1 January 2008, 《中華人民共和國外商投資企業和外國企業所得稅法》 (the PRC Enterprise Income Tax Law for Foreign Invested Enterprises and Foreign Enterprises) and 《中華人民共和國企業所得稅暫行條例》 (the Provisional Regulations of the PRC on Enterprise Income Tax) were abolished, and the PRC Enterprise Income Tax Law, which was promulgated on 16 March 2007, became effective. Pursuant to the PRC Enterprise Income Tax Law, the income tax rate for both domestic-funded enterprises and foreign-funded enterprises is 25%.

Pursuant to 《國務院關於實施企業所得稅過渡優惠政策的通知》 (the Notice of the State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax), which was promulgated and became effective on 26 December 2007, the preferential tax rate enjoyed by enterprises established prior to the issuance of the PRC Enterprise Income Tax Law pursuant to the then current tax laws and administrative regulations, will gradually be increased to the statutory tax rate within a transitional period of five years from the effective date of the PRC Enterprise Income Tax Law. The fixed-term preferential tax policies enjoyed by certain enterprises, such as the “two-year exemption and three-year half rate” and the “five-year exemption and five-year half rate”, will continue to be effective after the implementation of the PRC Enterprise Income Tax Law in the manner and for the period as specified in relevant tax laws and administrative regulations until the expiration of the preferential period. Enterprises that had not enjoyed the aforesaid preferential policy due to their failure to make a profit will enjoy the aforesaid preferential policy from 2008 onwards.

REGULATIONS

《中華人民共和國增值稅暫行條例》(the Interim Regulation of the PRC on Value Added Tax), which was promulgated on 13 December 1993 and amended on 10 November 2008, is applicable to domestic and foreign invested enterprises selling commodities in the PRC, engaging in the provision of processing or maintenance services, and imports of commodities. Except for the sales or imports of specific categories of commodities which are entitled to a value-added tax rate of 13%, sales or imports, provision of processing, and maintenance labour are subject to a tax rate of 17%.

Pursuant to 《中華人民共和國營業稅暫行條例》(the Interim Regulation of the PRC on Business Tax), which was promulgated on 13 December 1993 and amended on 5 November 2008, enterprises engaged in the provision of taxable labour services as prescribed in this regulation, transfer of intangible assets and sale of immovables are subject to business tax at a rate ranging from 3% to 20%, depending on the categories of taxable items.

Enterprises in the PRC engaging in processing trade may enjoy certain tax preferences. Pursuant to 《中華人民共和國進出口關稅條例》(the Regulations of the PRC on Import and Export Duties), which was promulgated by the State Council of the PRC on 23 November 2003, if import duties are paid for the materials imported for processing trade when they enter into the territory of PRC, and the finished products or the import materials are exported within the specified time limit, the customs shall refund the import duties imposed on entry. Pursuant to 《國家稅務總局關於外商投資企業來料加工、進料加工的免稅的通知》(the Notice of the State Administration of Taxation of the PRC on Exemption of Taxes for Processing of Materials Provided by Foreign Clients and Processing of Imported Materials by Foreign-Funded Enterprises) promulgated on 10 October 2000, the goods imported by foreign-funded enterprises for processing of materials provided by foreign clients or for processing of imported materials are exempted from import value-added tax and import consumption tax. After export of processed goods, the processed or entrusted processed goods and fees for the processing shall be exempted from value-added tax and consumption tax. Pursuant to 《關於徵收出口關稅的幾項規定的通知》(the Notice of Several Provisions on Levy of Export Duties), which was promulgated by the General Administration of Customs of the PRC on 15 May 1982, the finished products by processing materials provided by foreign clients may be exempted from export duties. Pursuant to 《出口貨物退(免)稅管理辦法》(the Provisions on Export Tax Refund (Exemption)), which was promulgated by the State Administration of Taxation of the PRC on 18 February 1994, goods processed with materials provided by foreign clients and re-exported are exempted from value-added tax and consumption tax.

Trademark law

《中華人民共和國商標法》(the Trademark Law of the PRC), which was promulgated on 23 August 1982, and amended on 22 February 1993 and on 27 October 2001, seeks to improve the administration of trademarks, protect the right to exclusive use of trademarks and encourage producers and operators to guarantee the quality of their goods and services and maintain the reputation of their trademarks, so as to protect the interests of consumers, producers and operators.

REGULATIONS

Under this law, any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark:

- using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a licence from the registrant of that trademark;
- selling the commodities that infringe upon the right to exclusive use of a registered trademark;
- forging, manufacturing without authorisation the marks of a registered trademark of others, or selling the marks of a registered trademark forged or manufactured without authorisation;
- changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; and
- causing other damage to the right to exclusive use of a registered trademark of another person.

In the event of any above-mentioned acts which infringe upon the right to the exclusive use of a registered trademark, the infringer would be ordered to stop the infringement acts immediately, imposed a fine, and be ordered to compensate the infringed party, and the competent administrative authority for industry and commerce may confiscate or destroy the infringing commodities and the tools especially used for the manufacturing of infringing commodities and the forging of marks of the registered trademark.

Foreign exchange

Pursuant to 《中華人民共和國外匯管理條例》 (the Regulation on Foreign Exchange Administration of the PRC), which was promulgated on 29 January 1996, as amended on 14 January 1997 and on 1 August 2008 by the State Council of the PRC, international payments in foreign exchange and transfer of foreign exchange under the current account are not subject to any state control or restriction. However, before reserving the foreign exchange income under the capital account or selling it to any financial institution engaged in the foreign exchange sale or settlement business, the approval of the competent foreign exchange administrative authority shall be obtained, unless it is otherwise provided by the state. Foreign exchange expenditure under the capital account shall be paid by an enterprise with its self-owned foreign exchange upon valid documents or with the foreign exchange purchased from any financial institution engaged in the foreign exchange sale or settlement business in accordance with the administrative provisions on payment and purchase of foreign exchange promulgated by the foreign exchange administrative authority of the State Council of the PRC. If the state provisions require the approval of a foreign exchange administrative authority, the approval must be obtained before making foreign exchange payments. The foreign exchange and foreign exchange settlement funds under the capital account shall be utilised for the purposes approved by the competent authorities including the foreign exchange administrative authority.

REGULATIONS

REGULATORY REQUIREMENTS IN EUROPE

Pursuant to the Council Regulation (EC) No. 1225/2009 of 30 November 2009 (“**Council Regulation**”), the European Commission is responsible for investigating into allegations of dumping within the European Union (the “**EU**”). It usually conducts an investigation either upon receipt of a complaint from producers of the product within the EU or on its own initiative. The investigation must show that (i) there is dumping pursuant to article 2 of the Council Regulation by the exporting producers in the country/countries concerned; (ii) material injury has been suffered by the industry concerned within the EU; (iii) there is a causal link between the dumping and injury found; and (iv) the imposition of measures is not against the interest of the EU.

If the investigation comes to the conclusion that the above four conditions have been met, then anti-dumping measures may be imposed on imports of the product concerned. These measures are usually duties or price undertakings. The duties are paid by the importer in the EU and collected by the national customs authorities of the respective EU countries. Exporting producers may offer “undertakings” agreeing to sell at a minimum price, for example. If their offer is accepted, anti-dumping duties will not be imposed on imports. The European Commission is not obliged to accept an offer of an undertaking.

Besides the measures taken by the European Commission, most of the EU member states have national legislation not allowing the sale of goods below their costs of production unless such sale is for a short period of time or under special event. In Germany, the Act against Restraints of Competition (Gesetz gegen Wettbewerbsbeschränkungen, **GWB**) and the Fair-Trade Law (Gesetz gegen den unlauteren Wettbewerb, **UWG**) are applicable for these actions. These legislations are enforced by the national anti-trust authorities. Investigations might result in damage claims against the importer in the EU by local producers.

REGULATORY REQUIREMENTS IN THE UNITED STATES

In the United States, the United States International Trade Commission and U.S. Department of Commerce share responsibility for investigating allegations of dumping, under authority granted by the Tariff Act of 1930 (19 U.S.C. § 1202 *et. seq.*). The standards and procedures employed by the United States federal agencies are analogous to those described above with respect to the EU and Germany. Where an investigation reveals that foreign products are being “dumped” into the United States, the U.S. Department of Commerce may impose appropriate countervailing duties as a remedy for the dumping activities.