

### PRC LAWS RELATING TO INVESTMENT IN STONE INDUSTRY

Under the *Tentative Regulation to Promote the Adjustment of Industrial Structure* (促進產業結構調整暫行規定) issued on 2 December 2005 and *Guiding Catalogue of Industrial Structure for Adjustment (Version 2005)* (產業結構調整指導目錄(2005年本)), the production of high-purity, ultra-fine and performance-improved fine processed mineral materials required by high-technology and clean-technology industries, and the development of technology and fabrication of equipment for such mineral materials, as well as annual production capacity above 200,000 m<sup>3</sup> of quarry stone or 300,000 m<sup>3</sup> of ultra-thin composite stone material are listed as encouraged industries, for which the PRC Government will increase its support.

The *Catalogue for the Guidance of Foreign Investment Industries* (外商投資產業指導目錄) issued on 31 October 2007, effective on 1 December 2007, provides that foreign enterprises are encouraged to invest in non-metallic minerals stone industry to fine process and produce ultra-fine, grinding, high-purity, refined or performance-improved products.

### PRC LAWS RELATING TO THE INDUSTRY

Pursuant to the *Mineral Resource Law of the PRC* (中華人民共和國礦產資源法) promulgated on 19 March 1986, effective on 1 October 1986 and amended on 29 August 1996 and the *Rules for the Implementation of the Mineral Resources Law* (中華人民共和國礦產資源法實施細則) promulgated and effective on 26 March 1994, (i) mineral resources are owned by the State with the State Council exercising ownership over such resources on behalf of the State; (ii) the department in charge of geology and mineral resources under the State Council is authorized by the State Council to supervise and administer the exploration and exploitation of mineral resources nationwide. The department in charge of geology and mineral resources, of each province, autonomous region or municipality directly under the Central Government is responsible for the supervision and administration of the exploration and exploitation of mineral resources within its respective administrative regions; and (iii) an enterprise that intends to explore and exploit mineral resources shall apply for each exploration and mining rights separately according to the relevant PRC laws, regulations and policies, and is required to undergo the registration process for each of the exploration and mining rights, unless the mining enterprise which intends to conduct exploration operations for its own production within the defined mining areas has previously obtained mining rights.

Under the *Rules for the Implementation of the Mineral Resources Law*, a holder of a mining permit (採礦許可證) has the right to and is also obligated to conduct mining activities in the area and within the time period designated in the mining permit. A holder of a mining permit has certain additional rights including, among others, rights to (i) set up necessary production and living facilities within the designated area and (ii) acquire the land use rights necessary for the production. A holder of mining permit has certain additional obligations including, among others, obligations to (i) conduct reasonable exploitation, and protect and fully utilize mineral resources; (ii) pay resources tax and resources compensation levy; (iii) comply with the laws and regulations relating to occupational safety, soil and water conservation, reclamation and environmental protection; and (iv) submit mineral resource reserve and utilization reports to relevant government authorities as required.

The *Procedures for the Registration of Mining of Mineral Resources* (礦產資源開採登記管理辦法) (“State Council Circular No. 241”) was promulgated by the *State Council* and became effective on 12 February 1998. Under the State Council Circular No. 241, anyone with mining rights shall file an application for registration of change(s) with the appropriate registration administration authority within

---

## REGULATORY OVERVIEW

---

the duration of the mining permit term if there is any change in the scope of the mining area, the main-exploited mineral categories, the exploitation mode, the name of the mining enterprise and/or the transfer of the mining right according to the relevant laws. If continuation of mining is necessary after the expiration of the mining permit, the holder of a mining permit shall apply for an extension with the registration authority within 30 days prior to the expiration of the term of the mining permit. If the holder of a mining permit fails to apply for an extension prior to the expiration of the term, the mining permit shall terminate automatically.

In the *Notice on Comprehensively Starting the Consolidation and Regulation of Mineral Resource Developments* (關於全面整頓和規範礦產資源開發秩序的通知) promulgated on 18 August 2005, the State Council requires all provincial governments to comply with the notice and organize relevant authorities to investigate and rectify various illegal exploration and mining of mineral resources in their respective regions.

In the *Notice on Further Standardizing the Administration of Granting the Mineral Rights* (關於進一步規範礦業權出讓管理的通知) promulgated on 24 January 2006, the mines were categorized, on basis of the natural existing conditions of mineral resources and extent of past geological investigation, into three classes, with different grant procedures, and the administrative rules on invitation for bid were perfected. According to the notice, marble and granite (大理岩和花崗岩) are categorized in the second class and their exploration rights are granted by open invitation for bid, while limestone (for building purposes) (石灰岩(建築石料用)) is categorized in the third class and its mining rights are granted directly by open invitation for bid, without passing through the bidding process for exploration rights.

The *Comments on Consolidation of Mineral Resource Developments* (對礦產資源開發進行整合的意見) was issued on 31 December 2006 with the main objective to substantially rectify, by consolidate small-scaled mines, the problems arising out of the existence of numerous small-scaled mining enterprises, and to make mine development more reasonable, enhance the composition of mining enterprises, significantly improve mine safety, ecology and the environment, thereby improving mineral resources' contribution to sustainable development of the economy and society.

The *Notice on Looking aback Campaign for Consolidation and Regulation of Mineral Resource Developments* (關於開展整頓和規範礦產資源開發秩序「回頭看」行動的通知) was issued on 27 February 2008. The purpose of the campaign was to investigate and address illegal exploration and mining, with focus on exploration and mining without license, and mining beyond strata or boundary.

To administer the assessment of exploration rights and mining rights, and to ensure the healthy development of the assessment industry, the *Tentative Provisions on Administration of Mining Industry Right Assessment* (礦業權評估管理辦法(試行)) was issued on 23 August 2008.

## PRC LAWS RELATING TO ENVIRONMENTAL PROTECTION

The PRC laws and regulations on environmental protection include the *Environmental Protection Law of the PRC* (中華人民共和國環境保護法) promulgated and effective on 26 December 1989; the *Air Pollution Prevention of the PRC* (中華人民共和國大氣污染防治法) revised on 29 April 2000 and effective on 1 September 2000; the *Law of the PRC on the Prevention and Control of Water Pollution* (中華人民共和國水污染防治法) revised on 28 February 2008 and effective on 1 June 2008 and the related implementing regulations (中華人民共和國水污染防治法實施細則) promulgated and effective on 20 March 2000; the *Rules on the Administration concerning Environmental Protection of Construction Projects* (建設項目環境保護管理條例) promulgated and effective on 29 November 1998

---

## REGULATORY OVERVIEW

---

and the *Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects* (建設項目竣工環境保護驗收管理辦法) promulgated on 27 December 2001 and effective on 1 February 2002.

Pursuant to the laws and regulations stated above, an enterprise that discharges and dispenses toxic and hazardous materials including waste water, solid waste and waste gases, shall comply with the applicable national and local standards, as well as report to and register with the applicable environmental protection authority. Failure to comply can result in a warning, an order, or a penalty against the enterprise. Before commencing a construction project, an environmental impact assessment report must be submitted by an enterprise to the relevant environmental protection authority for approval. An acceptance inspection by the relevant environmental protection authority is required before the completed project can commence its operations.

### PRC LAWS RELATING TO GEOLOGICAL ENVIRONMENT PROTECTION

Pursuant to the *Provisions on the Protection of the Geologic Environment of Mines* (礦山地質環境保護規定) promulgated on 2 March 2009 and effective on 1 May 2009, (i) when an applicant for mining rights applies for the mining permit, the applicant shall compile a plan for the protection and restoration of the mine's geological environment and submit the plan to the competent land and resources authority for approval; (ii) when a mine's geological environment is destroyed due to mineral mining, the holder of a mining permit shall be responsible for restoration, the cost of the restoration is included in the production cost; and (iii) the holder of a mining permit shall pay the security deposit for the restoration of the geological environment of mines. The standard and measures for the payment of the security deposit for the restoration of the geological environment of mines is implemented in compliance with relevant provisions formulated by each province, autonomous region or municipality.

Pursuant to the *Sichuan Province's Regulations on the Administration of Geological Environment* (四川省地質環境管理條例) promulgated and effective on 14 August 1999, and amended on 27 March 2009 (i) it is mandatory to go through the evaluation in respect of the effect on the geological environment for mineral mining; and (ii) the holder of a mining permit shall pay the security deposit for the restoration of the geological environment of mines. Pursuant to the *Sichuan Interim Regulations on the Management of Security Deposits for the Restoration of the Geological Environment of Mines* (四川省礦山地質環境恢復治理保證金管理暫行辦法) promulgated on 20 March 2008 and effective on 1 May 2008, (i) a holder of mining permit shall pay a security deposit to guarantee performance of its obligations to restore the geological environment of the relevant mines; (ii) the amount of the first installment of the security deposit shall not be less than 20% of the total amount, provided that the effective term of the relevant mining permit is for 11 to 20 years (inclusive) and the remainder of the security deposit shall be paid once a year in an amount that in each case shall not be less than 20% of the remaining amount of the security deposit provided further that the remaining amount of the security deposit shall be fully paid at least one year prior to the expiration of the relevant mining permit; (iii) the entire amount of security deposit collected shall be placed in a special account; (iv) prior to the closure of a mine, the holder of the relevant mining permit shall complete the restoration of the geological environment of the mine, apply for an inspection of the mine and submit a report regarding the restoration of the mine; and (v) the security deposit together with interest shall be refunded if the inspection is satisfactory, otherwise, the relevant land and resources authority shall organize the restoration using the security deposit and the relevant mine owner shall be liable for any shortfall if the security deposit is insufficient.

---

## REGULATORY OVERVIEW

---

### PRC LAWS RELATING TO PRODUCTION SAFETY

Pursuant to the *Production Safety Law of the PRC* (中華人民共和國安全生產法) promulgated on 29 June 2002 and effective on 1 November 2002 and the *Law of the PRC on Safety in Mines* (中華人民共和國礦山安全法) and its related implementation rules promulgated on 7 November 1992 and 30 October 1996 and effective on 1 May 1993 and 30 October 1996, respectively, (i) safety facilities in mine construction projects must be designed, constructed and put into operation at the same time as the commencement of the principal parts of the projects; (ii) the design of a mine shall comply with the safety rules and technological standards of the mining industry and shall be approved by the relevant authorities; and (iii) such mines may start production or operations only after they have passed the safety check and approval process as required by the relevant PRC laws and administrative regulations.

The *Regulation on Work Safety Licenses* (安全生產許可證條例) was promulgated and became effective on 13 January 2004. The *Measures for the Implementation of Work Safety Licenses for Non-coal Mine Enterprises* (非煤礦礦山企業安全生產許可證實施辦法) was promulgated on 17 May 2004, amended on 30 April 2009 and became effective on 8 June 2009. Pursuant to such regulation and measures, (i) the work safety licensing system is applicable to any enterprise engaging in non-coal mining and such enterprise may not produce any products without obtaining a work safety license; (ii) prior to producing any products, the non-coal mining enterprise shall apply for a work safety license, which is valid for three years; (iii) the work safety bureau at or above provincial level are in charge of issuing the work safety license for non-coal mining enterprise; and (iv) if a work safety license needs to be extended, the enterprise must apply for an extension with the administrative authority who issued the original license three months prior to the expiration of the original license.

### PRC LAWS RELATING TO STONE TRADING

The *Notice on Adjustment to Catalogue of Import & Export Goods subject to Inspection and Quarantine by Import & Export Inspection & Quarantine Authority* (關於調整《出入境檢驗檢疫機構實施檢驗檢疫的進出境商品目錄(2009年)》的公告) published in December 2008, effective on 1 January 2009, removed marble (大理石), travertine (石灰華) and related products from the list of goods subject to compulsory inspection, and as a result radioactivity inspection is no longer required for marble (大理石), travertine (石灰華) and related products.

### PRC LAWS RELATING TO TAXATION AND FEE

According to the EIT Law which took effect as at 1 January 2008 and its implementation rules, a unified enterprise income tax rate of 25% is applied equally to both domestic enterprises and foreign-invested enterprises.

Pursuant to the *Interim Regulations of the PRC on Resource Tax* (中華人民共和國資源稅暫行條例) promulgated on 25 December 1993 and effective on 1 January 1994, any enterprise engaged in the exploitation of mineral products within the PRC is subject to pay a resource tax.

According to the *Notice on Adjusting Resource Tax Applicable to Limestone, Marble and Granite* (財政部、國家稅務總局關於調整石灰石、大理石和花崗石資源稅適用稅額的通知) effective from 1 July 2003, statutory resource tax rate for limestone (石灰石) ranges from RMB0.5 to RMB3.0 per m<sup>3</sup> and statutory resource tax rate for marble ranges from RMB3.0 to RMB10.0 per m<sup>3</sup>. Local governmental authorities are authorized to determine the specific resource tax rate within the foresaid range payable by any mining right holder. Based on such statutory authorization, pursuant to a confirmation letter issued by the *State Tax Bureau of Jiangyou City* (江油市國家稅務局) on 14 February 2011, the specific

---

## REGULATORY OVERVIEW

---

resource tax rate payable by holders of marble (大理石) mining rights in Jiangyou is RMB10 per m<sup>3</sup>. Pursuant to the Provisions on the Administration of the *Collection of Mineral Resources Compensation* (礦產資源補償費徵收管理規定) promulgated on 27 February 1994, effective on 1 April 1994 and amended on 3 July 1997, mineral resources compensation shall be paid by the holder of the mining permit if such holder decides to exploit mineral resources within the PRC territory, unless such PRC laws or administrative regulations provide otherwise.

The resource compensation tax is levied at 2% of total revenue and VAT of 17% is included in the sale price of marble blocks, marble slabs and other by-products produced from the Zhangjiaba Mine. We are also subject to city-maintenance-and-construction tax at 7% of VAT, an education levy at 3% of VAT and an additional local education fee at 1% of VAT.

Under the *Notice on Adjustment to Rate of Tax Rebate Applicable to Some Goods and Addition to Catalogue of Goods Forbidden for Processing Trade* (關於調整部分商品出口退稅率和增補加工貿易禁止類商品目錄的通知) promulgated on 14 September 2006, raw stone material, quarry stone, primarily processed stone material no longer enjoy any export tax rebate, as at 15 September 2006 and shall added into the catalogue of goods forbidden for processing trade, while the 13% export tax rebate applicable to stone products with high added value, such as gravestone, stone carving and engraving remain in effect.

The *Notice on Decreased Rate of Tax Rebate for Export of Some Goods* (關於調低部分商品出口退稅率的通知) promulgated on 19 June 2007 stipulated that the rate of tax rebate for some deeply-processed stone products will be decreased as at 1 July 2007, i.e., the rate of tax rebate applicable to stone products under HS code 68022120 (Travertine Graves & Construction Stone Products (經簡單切銷或鋸開的石灰華及製品)), HS code 68029190 (processed marble, travertine and wax stone products not listed (其他已加工大理石及蠟石及製品(包括已加工石灰華及製品))), HS code 68029290 (processed limestone products not listed (其他已加工石灰石及製品)), HS code 68029390 (processed granite products not listed) and HS code 68029990 (processed stone products not listed) will be decreased from 13% to 5%.

The *Notice on Raising the Rate of VAT Rebate Applicable to Export of Commodities such as Labour-intensive Products* (關於提高勞動密集型產品等商品增值稅出口退稅率的通知) promulgated on 17 November 2008 stipulated that the rate of export tax rebate for deep-processed stone products with HS code 68022120 (Travertine Graves & Construction Stone Products (經簡單切銷或鋸開的石灰華及製品)), HS code 68029190 (processed marble, travertine and wax stone products not listed (其他已加工大理石及蠟石及製品(包括已加工石灰華及製品))), HS code 68029290 (processed limestone products not listed (其他已加工石灰華及製品)), HS code 68029390 (processed granite products not listed (其他已加工花崗岩及製品)) and HS code 68029990 (processed stone products not listed (其他已加工石灰石及製品)) have increased from 5% to 9%, effective on 1 December 2008.

The *Notice on Execution Plan of Customs Tariff 2011* (關於2011年關稅實施方案的通知) promulgated on 2 December 2010, effective on 1 January 2011, stipulated that zero import tax (tentative) continue to apply to all quarry marble (原狀或粗加修正的大理石等) (goods under HS code 25151100, 25151200, 25152000), quarry granite and sandstone (原狀或粗加修正的花崗岩、砂岩等) (goods under HS code 25161100, 25161200, 25162000).

### PRC LAWS RELATING TO LAND

Pursuant to the *Land Administration Law of the PRC* (中華人民共和國土地管理法) promulgated on 25 June 1986 and effective on 1 January 1987 and amended on 28 August 2004, all land in the PRC is either state-owned or collectively owned, depending on the location of the land. All land in the urban



---

## REGULATORY OVERVIEW

---

areas of a city or town is state-owned, and all land in the rural areas of a city or town and all rural land is, unless otherwise specified by law, collectively owned. The state has the right to reclaim land in accordance with law if required for public interest.

On 12 April 1988, the *Constitution of the PRC* (中國人民共和國憲法) was amended by the NPC to allow the transfer of land use rights for value.

Pursuant to the *Interim Regulations of the PRC on Grant and Transfer of the Right to Use State-owned Urban Land* (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例) promulgated and effective on 19 May 1990, local governments at or above county level have the power to grant land use rights for specific purposes and for a definite period to a land user pursuant to a contract for the grant of land use rights against payment of a grant premium. All local and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The state may not reclaim lawfully granted land use rights prior to expiration of the term of grant. If public interest requires repossession by the state under special circumstances during the term of grant, compensation will be paid by the state. A land grantee may lawfully transfer, mortgage or lease its land use rights to a third-party for the remainder of the term of grant. Upon expiration of the term of grant, renewal is possibly subject to the execution of a new contract for the grant of land use rights and payment of a premium. If the term of the grant is not renewed, the land use rights and ownership of any buildings erected on the land will revert to the state without compensation.

Pursuant to the *Interim Regulations of the PRC on Grant and Transfer of the Right to Use State-owned Urban Land*, after land use rights relating to a particular area of land have been granted by the state, unless any restriction is imposed, the party to whom such land use rights have been granted may transfer, lease or mortgage such land use rights for a term not exceeding the term which has been granted by the state. The difference between a transfer and a lease is that a transfer involves the vesting of the land use rights by the transferor in the transferee during the term for which such land use rights are vested in the transferor. A lease, on the other hand, does not involve a transfer of such rights by the lessor to the lessee. Furthermore, a lease, unlike a transfer, does not usually involve the payment of a premium. Instead, a rent is payable during the term of the lease. Land use rights cannot be transferred, leased or mortgaged if the provisions of the land grant contract, with respect to the prescribed period and conditions of investment, development and use of the land, have not been complied with. In addition, different areas of the PRC have different conditions which must have been fulfilled before the respective land use rights can be transferred, leased or mortgaged. All transfers, mortgages and leases of land use rights must be registered with the relevant local land bureaus at municipality or county level. Upon a transfer of land use rights, all rights and obligations contained in the contract pursuant to which the land use rights were originally granted by the state are deemed to be incorporated as part of the terms and conditions of such transfer.

Pursuant to the *PRC Law on Administration of Urban Real Estate* (中華人民共和國城市房地產管理法) promulgated on 5 July 1994 and effective on 1 January 1995 and amended on 30 August 2007, real property that has not been registered and a title certificate for which has not been obtained in accordance with the law cannot be transferred. If land use rights are acquired by means of grant, the following conditions must have been met before the land use rights may be transferred: (i) the premium for the grant of land use rights must have been paid in full in accordance with the land grant contract and a land use rights certificate must have been obtained; (ii) investment or development must have been made or carried out in accordance with terms of the land grant contract; (iii) where the investment or development belongs to house construction projects, more than 25% of the total amount of investment

---

## REGULATORY OVERVIEW

---

or development must have been made or completed; and (iv) where the investment or development involves a large tract of land, conditions for the use of the land for industrial or other construction purposes have been confirmed.

Pursuant to the *Land Administration Law of the PRC*, land collectively owned by rural residents is contracted to and operated by the members of respective collective economic entities for uses such as plantation, forestry, livestock husbandry or fishery production. The land use rights of collectively owned land must not be granted, assigned or leased to any party for any non-agricultural uses.

In the case of temporary use of state-owned land or land collectively-owned by farmers for construction projects or by geological survey teams, approval shall be obtained from the land administrative department of the government at or above the county level. Land users shall sign contracts with relevant land administrative department or rural economic collective organizations or village committees for the temporary use of land, depending on the ownership of land and shall pay land compensation fees as stipulated in the contracts for the temporary use of land. The term for the temporary use of land shall generally not exceed two years.

### PRC LAWS RELATING TO PREVENTION AND CONTROL OF OCCUPATIONAL DISEASES

Pursuant to the *Prevention and Control of Occupational Diseases Law of the PRC* (中華人民共和國職業病防治法) promulgated on 27 October 2001 and effective on 1 May 2002, for construction projects, including projects to be constructed, expanded or reconstructed, and projects for technical renovation and introduction which may incur occupational disease hazards, the unit responsible for the construction project shall: (i) during the period of feasibility study, submit to the health administrative department a preliminary assessment report on such hazards; (ii) assess the effect of the control on occupational disease hazards before the construction project is completed for inspection and acceptance; and (iii) adopt protective facilities against occupational diseases. The protective facilities may be put into formal operation and use only after they have passed the inspection by the public health administration department.

Pursuant to the *Prevention and Control of Occupational Diseases Law of the PRC*, an employing unit shall: (i) establish and improve the responsibility system of occupational disease prevention and treatment, strengthen the administration and improve the level of occupational disease prevention and treatment, and bear responsibility for the harm of occupational diseases engendered therefrom; (ii) purchase social insurance for industrial injury; (iii) adopt effective protective facilities against occupational diseases, and provide protective articles to the laborers for personal use against occupational diseases; (iv) set up alarm equipment, allocate on-spot emergency treatment articles, washing equipment, emergency safety exits and safety zones for poisonous and harmful work places where acute occupational injuries are likely to take place; and (v) inform the employees, according to the facts, of the potential harm of occupational disease as well as the consequences thereof and the protective measures and treatment against occupational diseases when signing a labor contract with employees.

---

## REGULATORY OVERVIEW

---

### PRC LAWS RELATING TO LABOR

Pursuant to the *PRC Labor Law* (中華人民共和國勞動法) promulgated on 5 July 1994 and effective on 1 January 1995 and the *PRC Labor Contract Law* (中華人民共和國勞動合同法) promulgated on 29 June 2007 and effective on 1 January 2008, if an employment relationship is established between an entity and its employees, written labor contracts shall be prepared. The relevant laws stipulate the maximum number of working hours per day and per week, respectively. Furthermore, the relevant laws also set forth the minimum wages. The entities shall establish and develop systems for occupational safety and sanitation, implement the rules and standards of the State on occupational safety and sanitation, educate employees on occupational safety and sanitation, prevent accidents at work and reduce occupational hazards.

Pursuant to the *Interim Regulations on the Collection and Payment of Social Insurance Premiums* (社會保險費徵繳暫行條例) promulgated and effective on 22 January 1999 and the *Interim Measures concerning the Administration of the Registration of Social Insurance* (社會保險登記管理暫行辦法) promulgated and effective on 19 March 1999, basic pension insurance, medical insurance and unemployment insurance are collectively referred to as social insurance. Each of the PRC companies and their employees are required to contribute to the social insurance plan.

Pursuant to the *Regulations on Occupational Injury Insurance* (工傷保險條例) promulgated on 27 April 2003 and effective on 1 January 2004, as amended on 20 December 2010, and the *Interim Measures concerning the Maternity Insurance for Enterprise Employees* (企業職工生育保險試行辦法) promulgated on 14 December 1994 and effective on 1 January 1995, PRC companies shall pay occupational injury insurance premiums and maternity insurance premiums for their employees.

Pursuant to the *Regulations on the Administration of Housing Fund* (住房公積金管理條例) promulgated and effective on 3 April 1999, as amended on 24 March 2002, PRC companies must register with the applicable housing fund management center and establish a special housing fund account in an entrusted bank. Each of the PRC companies and their employees are required to contribute to the housing fund and their respective deposits shall not be less than 5% of an individual employee's monthly average wage during the preceding year.

### PRC LAWS RELATING TO FOREIGN EXCHANGE

Pursuant to the *Regulations on Foreign Exchange Control of the PRC* (中華人民共和國外匯管理條例) promulgated on 29 January 1996, effective on 1 April 1996 and amended on 5 August 2008, payments made in foreign currencies for international transactions, such as the sale or purchase of goods, are not subject to PRC governmental control or restrictions. Certain organizations in the PRC, including foreign-invested enterprises, may purchase, sell and/or remit foreign currencies at certain banks authorized to conduct foreign exchange business upon providing valid commercial documents to such banks. However, approvals are required for the relevant capital account transactions, such as an overseas investment by a domestic company.

### PRC LAWS RELATING TO QUALITY

The revised *Product Quality Law of the PRC* (中華人民共和國產品質量法) was promulgated on 8 July 2000 and became effective on 1 September 2000. The State Council's product quality supervision authority is in charge of the nationwide supervision of product quality, while the local product quality supervision authority at or above the county level is responsible for supervising the product quality within its respective administrative region. Producers and sellers shall establish internal quality



---

## REGULATORY OVERVIEW

---

management systems, implement strict job quality specifications and corresponding quality evaluation procedures. The State encourages the enterprises to ensure that the quality of their products achieve and surpass the industrial, national and international standards.

As advised by the PRC legal adviser, Commerce & Finance, except as disclosed in the section headed “Business” to the Prospectus, the PRC subsidiaries of our Company have complied with PRC laws and regulations in all material aspects and have obtained all the material permits and licenses for their business operations.