

REGULATIONS

This section sets out summaries of certain aspects of the PRC laws and regulations, which are relevant to our Group's operation and business.

Establishment, Operation and Management of a Foreign-owned Enterprise

The establishment, operation and management of corporate entities in the PRC are governed by *the Company Law of the PRC** (中華人民共和國公司法) (the "Company law"), which was promulgated by the Standing Committee of the NPC on December 29, 1993 and became effective on July 1, 1994. It was subsequently amended on December 25, 1999, August 28, 2004 and October 27, 2005 respectively. The companies are classified into categories – limited liability companies and limited companies by shares. The Company Law shall also apply to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, verification and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labor matters of a wholly foreign-owned enterprise are also regulated by *the Wholly Foreign-owned Enterprise Law of the PRC** (中華人民共和國外資企業法), which was promulgated on April 12, 1986 and amended on October 31, 2000, and the *Implementation Regulation of the Wholly Foreign-owned Enterprise Law** (中華人民共和國外資企業法實施細則), which was promulgated on December 12, 1990 and amended on April 12, 2001.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises is governed by *the Guidance Catalog of Industries for Foreign Investment** (外商投資產業指導目錄) (the "Catalog"), which was promulgated by the Ministry of Commerce and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) on October 31, 2007 and became effective on December 1, 2007. The Catalog is a long-standing tool that PRC policymakers have used to manage and direct foreign investment. The Catalog divides industries into three basic categories: encouraged industries, restricted industries and prohibited industries. Industries not listed in the Catalog are generally open to foreign investment unless specifically barred in other PRC regulations. Foreign-invested enterprises in encouraged industries are often permitted to establish wholly foreign-owned enterprises. Parts of industries in the restricted category may be limited to equity or contractual joint ventures, in some cases with the Chinese partner as the majority shareholder. Restricted category projects are also subject to higher-level government approvals. Industries in the prohibited section are closed to foreign investment.

Taxation

Income tax

According to EIT Law, which was promulgated on March 16, 2007 and became effective on January 1, 2008, the income tax rate for both domestic and foreign-invested enterprises shall be 25% commencing from January 1, 2008. The EIT Law provides certain transitional arrangements for the enterprises established prior to March 16, 2007 (i) where the foreign-invested enterprises enjoyed reduced tax rates under the then effective laws and regulations, such reduced tax rate shall be gradually increased to coincide with the Income Tax Law within five years starting from 2008; and (ii) where the foreign-invested enterprises are entitled to tax holidays for a fixed period under the then effective laws and regulations, such tax holidays may continue calculation until expiry. However, if the enterprise fails

REGULATIONS

to enjoy the tax holiday due to a lack of profit, year of 2008 shall be regarded as the first profit-making year and the tax holiday shall be calculated since 2008. In order to clarify some provisions in the EIT Law, the *Implementation Regulation of the Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法實施條例) was promulgated on December 6, 2007 and became effective on January 1, 2008.

According to the *Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy** (國務院關於實施企業所得稅過渡優惠政策的通知) issued on December 26, 2007 and became effective on January 1, 2008, enterprises which previously enjoy the 15% preferential tax rate shall gradually transit from this preferential tax rate to the unified 25% tax rate within five years commencing from January 1, 2008. The transitional tax rates applied to such enterprises are 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. Enterprises which previously enjoy the 24% preferential tax rate shall apply the unified 25% tax rate from January 1, 2008.

Value-added tax

Pursuant to the *Provisional Regulations on Value-added Tax of the PRC** (中華人民共和國增值稅暫行條例), which was amended on November 5, 2008 and became effective on January 1, 2009, all entities or individuals in the PRC engaged in the sales of goods, the processing services, repair and replacement services, and the importation of goods are required to pay value-added tax (the “VAT”). VAT payable is calculated as “output VAT” minus “input VAT,” and the rate of VAT is 17% or in certain limited circumstances, 13%, depending on the products concerned.

Foreign Currency Exchange and Dividend Distribution

Foreign currency exchange

Pursuant to the *Foreign Exchange Administration Rules of the PRC** (中華人民共和國外匯管理條例) (the “Foreign Exchange Administration Rules”), which was promulgated by the State Council of the PRC* (中華人民共和國國務院) on April 1, 1996 and was amended on January 14, 1997 and August 1, 2008, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loan unless prior approval of the State Administration of Foreign Exchange* (國家外匯管理局) (“SAFE”) is obtained. The income of foreign exchange of domestic institutions or individuals can be transferred back into China or deposited overseas. The specific requirements and term related to the transfer or deposit shall be prescribed by the foreign exchange administration department of the State Council in light of the balance of international payment and the status of foreign exchange administration.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and approval or file with the relevant governmental authorities (if necessary).

REGULATIONS

Dividend distribution

Before the promulgation of the EIT Law, the principal regulations governing distribution of dividends paid by wholly foreign-owned enterprise include *the Wholly Foreign-owned Enterprise Law* and *the Implementation Regulation of the Wholly Foreign-owned Enterprise Law*. Under these regulations, wholly foreign-owned enterprise in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. Dividends paid to its foreign investors are exempted from withholding tax. However, this provision was revoked by the EIT Law. The EIT Law prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. Subsequently, *the Implementation Regulation of the Enterprise Income Tax Law of the PRC* reduced the rate from 20% to 10%, effective from January 1, 2008.

The PRC and the government of Hong Kong signed *Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income** (內地和香港特別行政區政府關於對所得稅避免雙重徵稅和防止偷漏稅的安排) (the “Arrangement”) on August 21, 2006. According to the Arrangement, no more than 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the recipient is a company that holds less than 25% of the capital of the PRC company.

Product Quality

*The Product Quality Law of the PRC** (中華人民共和國產品質量法) (the “Product Quality Law”) was promulgated on February 22, 1993 and amended on July 8, 2000.

Pursuant to the Product Quality Law, a seller is obliged:

- to adopt a check-for-acceptance system for stock replenishment to examine the quality certificates and other labels of such stock;
- to take measures in keeping products for sale in good quality;
- not to sell defective or deteriorated products or products which have been publicly ordered to cease sales;
- to sell products with labels that comply with the relevant provisions;
- not to forge the origin or a product, or to forge or falsely use the name and address of another producer;
- not to forge or falsely use product quality marks such as authentication marks; and
- not to mix impurities or imitations into the products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the sale of products.

REGULATIONS

Pursuant to the Product Quality Law, a producer shall:

- be responsible for the quality of products it produces;
- not produce products that have been publicly ordered to cease production;
- not forge the origin of a product, or to forge or falsely use the name and address of another producer;
- not forge or falsely use product quality marks such as authentication marks;
- not mix impurities or imitations into the produces, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the production;
- ensure that the marks on the products or the packaging of the products are true; and
- ensure that, for products that are easily broken, inflammable, explosive, toxic, erosive or radioactive and products that cannot be handled upside down in the process of storage or transportation or for which there are other special requirements, the packaging thereof must meet the corresponding requirements, carry warning marks or warning written in Chinese or draws attention to the method of handling in accordance with the relevant provisions of the state.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer may be ordered to suspend its operations and its business license may be revoked. Criminal liability may incur in serious cases.

According to the Product Quality Law, consumer or other victims who suffer injury or property losses due to product defects may demand compensation from the producer as well as the seller, Where the responsibility lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa.

Labor

Pursuant to the *PRC Labor Law** (中華人民共和國勞動法) effective as of January 1, 1995, the *PRC Labor Contract Law** (中華人民共和國勞動合同法) effective as of January 1, 2008, and the *Implementation Regulations of the PRC Labor Contract Law** (中華人民共和國勞動合同法實施條例) effective as of September 18, 2008 (collectively, the “Labor Laws”), employers are obliged to enter into written labor contracts with employees on the date that they start employing the employees. The employers shall comply with the Labor Laws in many aspects including with no limitation to compensating their employees with wages in an amount equal to or above the local minimum wage standards, establishing and perfecting a labor safety and sanitation system. Violations of the Labor Laws may result in the imposition of fines or other administrative liabilities. Criminal liability may arise for serious violations.

REGULATIONS

Pursuant to the *PRC Social Insurance Law** (中華人民共和國社會保險法) (the “Social Insurance Law”) promulgated on October 28, 2001 and will become effective as of July 1, 2011, employers in the PRC should register social insurance with the social insurance authorities within 30 days from establishment and register social insurance for their employees with the social insurance authorities within 30 days from the employment. The employers should also make contributions to the basic medical insurance fund, basic pension insurance fund, occupational injury insurance fund, maternity insurance fund and unemployment insurance fund for their employees.

Foreign Trade and Customs

Pursuant to the *PRC Foreign Trade Law** (中華人民共和國對外貿易法) (the “Foreign Trade Law”) adopted on May 12, 1994 and amended on April 6, 2004 by the Standing Committee of the NPC and effective as of July 1, 2004, the State allows free import and export of goods and technologies, unless it is otherwise provided under the laws and administrative regulations. Any foreign trade business operator that is engaged in the import and export of goods or technology shall be registered for archival purposes with the administrative department of foreign trade of the State Council or the institution entrusted thereby, unless it is otherwise provided for by any law, administrative regulation or the foreign trade department of the State Council.

Pursuant to the *PRC Regulations on the Administration of the Import and Export of Goods** (中華人民共和國貨物進出口管理條例) (the “Import and Export of Goods Regulations”), promulgated on December 10, 2001 and effective as of January 1, 2002, set out the detailed rules on the import and export of goods system as provided for by the Foreign Trade Law. For goods subject to import quotas, enterprises shall submit their applications for the intended import quotas for the year after in August each year. For goods subject to export quotas, such application shall be submitted in the first half of November each year. The Import and Export of Goods Regulations further stipulates that the foreign trade department under the State Council may implement an authorized dealer system for certain goods, according to which only authorized dealers are allowed to engage in the import and export of the relevant goods.

Pursuant to the *PRC Customs Law** (中華人民共和國海關法) adopted on January 22, 1987 and amended on July 8, 2000 by the Standing Committee of the NPC and effective as of January 1, 2001, unless otherwise provided, all imported and exported goods shall be declared and duties on them shall be paid by their consignor or consignee, or by a declaration enterprise entrusted by the consignor or consignee and approved by and registered with the customs. No enterprises or persons can make declarations without registering with customs or obtaining the relevant qualifications for declaration in accordance with the laws.

Work Safety

The State Administration of Work Safety is the PRC government authority exercising control and supervision of work safety nationwide. Pursuant to the *PRC Work Safety Law** (中華人民共和國安全生產法), promulgated on June 29, 2002, an enterprise must meet the safety production conditions as stipulated by the PRC laws and regulations and State or industry standards to commence its operations. Any entities that do not comply with such safety conditions will not be allowed to be engaged in any production or operating activities. Production and operating units should provide education and training programs to their employees regarding production safety. The design, manufacturing, installation, application, checking, maintenance, reforming and abandonment of safety facilities should follow the

REGULATIONS

national standards or industrial standards. In addition, production and operating units should provide employees with protective equipments that meet national standards or industrial standards, and educate and supervise them in strictly complying with the production rules and regulations and operation procedures of the relevant units regarding safety.

Environmental Protection

Environmental protection law

The Ministry of Environmental Protection of the PRC* (中華人民共和國環境保護部) is responsible for the overall supervision and control of environmental protection in China. It formulates national standards for the discharge of waste materials and environmental protection and monitors the PRC environmental protection system. Environmental protection bureaus at the county level and above are responsible for environmental protection within their respective areas of jurisdiction.

Promulgated on December 26, 1989, *the PRC Environmental Protection Law** (中華人民共和國環境保護法) (the “Environmental Protection Law”) sets out the legal framework for environmental protection in the PRC. The Environmental Protection Law requires all operations that produce pollutants or other hazards to take environmental protection measures, and to establish an environmental protection responsibility system. Such system includes the adoption of effective measures to control and properly dispose of waste gas, waste water, waste residue, dust or other waste materials. Any entity that discharges waste material must report to and register with the relevant environmental protection authority. If an enterprise fails to report or register the environmental pollution caused by it, it will receive a warning or be penalized. Enterprises which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalized or have their business licenses terminated. Enterprises discharging contaminants in excess of the discharge limits or standards prescribed by the central or local authorities must pay discharge fees for the excess in accordance with the state regulations, and they are also responsible for the treatment of the excessive discharge. Enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as compensate any losses or damages suffered as a result of such environmental pollution.

Water pollution prevention

*The PRC Water Pollution Prevention Law** (中華人民共和國水污染防治法) (the “Water Pollution Prevention Law”) is the legal framework for the prevention and control of water pollution in respect of terrestrial and underground water from rivers, lakes, canals, channels and reservoirs. It was promulgated on May 11, 1984 and was revised twice on May 15, 1996 and February 28, 2008, respectively. The latest revision became effective on June 1, 2008. Environmental protection divisions under the local governments are vested with the functions to supervise and administer the prevention and control of water pollution, while the PRC State Environmental Protection Administration is in charge of the formulation of State water quality standards and State pollutant discharge standards. The provincial governments can supplement non- formulated items by setting local standards and filing reports to the State Environmental Protection Administration.

REGULATIONS

Any enterprise or institution that discharges water pollutants is subject to a discharge fee in accordance with relevant regulations and an excess-pollutant discharge fee in case of discharges in excess of the prescribed level and has to take corrective measures. Entities that fail to comply with the Water Pollution Prevention Law will be subject to a warning notice, a penalty payment, suspension of operations and closure of business as determined by the relevant environmental authority-in-charge. Any entity that causes water pollution is obliged to ensure the elimination of the pollution and compensate direct losses suffered by entities or individuals.

Atmospheric pollution prevention

*The PRC Atmospheric Pollution Prevention Law** (中華人民共和國大氣污染防治法) (the “Atmospheric Pollution Prevention Law”) was promulgated on September 5, 1987 and revised on August 29, 1995 and April 29, 2000, respectively. It is aimed at prevention and control of atmospheric pollution. Administrative departments of environmental protection under the government at or above the county level shall be responsible for conducting unified supervision and management of the prevention and control of atmospheric pollution. Where atmospheric pollutants are discharged, the concentration of such pollutants should not exceed the standards prescribed by State and local authorities. In addition, a system of collecting fees has been implemented by the government for discharging pollutants on the basis of the categories and quantities of the atmospheric pollutants discharged.

Entities that fail to comply with the Atmospheric Pollution Prevention Law will be subject to (i) a warning notice, (ii) a fine, confiscation of illegal earnings, (iii) a suspension of operations or the closure of their operations as determined by the competent environmental authority-in-charge and (iv) potential criminal liability. Any entity that causes an atmospheric pollution hazard is responsible for eliminating the pollution and must compensate relevant entities or individuals for their loss resulting from the pollution.

Noise pollution prevention

*The PRC Noise Pollution Prevention Law** (中華人民共和國環境噪聲污染防治法) (the “Noise Pollution Prevention Law”), promulgated on October 29, 1996 and effective on March 1, 1997, establishes the framework for noise pollution prevention in the PRC. Under the Noise Pollution Prevention Law, any person undertaking a construction, renovation or expansion project which might cause environmental noise pollution must prepare and submit an environmental impact statement to the environmental protection department of the State Council (the “State Environmental Protection Department”) for approval. Facilities for the prevention and control of environmental noise pollution must be designed, approved by the State Environmental Protection Department prior to commencement of the project, built and placed into use simultaneously when the project commences work. Facilities for the prevention and control of environmental noise pollution may not be dismantled or left idle without the approval of the State Environmental Protection Department.