

## PRC LAWS AND REGULATIONS

Our Group's wood flooring businesses are mainly based in the PRC and we have acquired harvesting rights in a quantity of forests lands in Yunnan Province, PRC. The PRC government imposes extensive regulations upon wood flooring industry and forest resources operation. This section sets forth a summary of the most significant PRC laws and regulations that affect our business and the industry in which we operate.

### Laws and Regulations relating to Foreign Investment in Wood Flooring Industry

Our Group engages in wood flooring production in China and is therefore subject to the Chinese laws and regulations in relation to foreign invested enterprises.

Guidance on foreign investment in different industries in the PRC can be found in the Foreign Investment Industrial Guidance Catalog (《外商投資產業指導目錄》) (the "Catalog") jointly issued by the NDRC and the MOFCOM and such catalog will be amended and re-promulgated from time to time by these two government authorities. Industries generally fall into four categories for the purposes of guiding foreign investment: encouraged, permitted, restricted and prohibited. The Catalog only lists out specific industries falling under the encouraged, restricted and prohibited categories and what is not listed there would be considered the permitted category. The current effective version of the Catalog was issued on October 31, 2007 and according to the 2007 Catalog, wood flooring production should belong to the permitted category, and comprehensively utilizing the "three residues" of forest (including logging residues, bucking residues and processing residues), inferior quality or small-sized lumber, firewood and bamboo belongs to the encouraged category.

### Laws and Regulations relating to Wood Flooring Production

The Regulations of the PRC on the Administration of Production Licenses for Industrial Products (《中華人民共和國工業產品生產許可證管理條例》), which were promulgated by the State Council on July 9, 2005 and became effective on September 1, 2005, put in place a production licensing system for enterprises producing products as listed in the Industrial Production Catalog (《實行生產許可證制度管理的產品目錄》). According to the latest Industrial Production Catalog issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, or the AQSIQ (國家質量監督檢驗檢疫總局) on August 25, 2010, production of artificial boards, such as engineered flooring, solid wood flooring, bamboo flooring, laminated flooring, plywood, oriented wood chipboard, medium density fiberboard, core-board and decorative veneered wood-based panels should be subject to the production licensing system.

### Laws and Regulations relating to Forest

The principle regulations governing forestry resources in China include:

- The Forestry Law of the PRC (《中華人民共和國森林法》), which became effective on January 1, 1985 and was amended on April 29, 1998;

- The Implementing Regulations for the Forestry Laws (《中華人民共和國森林法實施條例》), issued and became effective on January 29, 2000;
- The Decision of the Central Committee of the Communist Party of China and the State Council about Speeding up Forestry Development (《中共中央、國務院關於加快林業發展的決定》), became effective on June 25, 2003;
- The Key Elements of the Policies in Forestry Industry (《林業產業政策要點》), issued and became effective on August 10, 2007;
- The Revitalization Plan of Forestry Industry (2010-2012) (《林業產業振興規劃》), issued and became effective on October 29, 2009; and
- The Land Administration Law of the PRC (《中華人民共和國土地管理法》), which became effective in January 1, 1987, and was amended in 1988 and 2004.

PRC laws recognize the following four types of rights with respect to a forest in China: forestry land ownership, forestry land use rights, forestry tree ownership rights and forestry tree use rights.

#### *Protective Measures for Forest Resources*

China adopts the following measures to protect forest resources:

- to impose of annual quota of felling trees and encourage forest planting in order to expand the area of forest coverage;
- to provide financial assistance or long-term loans to collective organizations and individuals engaged in tree planting and forest cultivation;
- to encourage comprehensive utilization and conservation of timber and encourage the development and utilization of timber substitutes;
- to collect fees for the exclusive use of tree planting and forest cultivation;
- to require departments of coal mining and paper-making industries to draw certain amount of funds based on the output of coal, paper pulp and paper, for the exclusive use of cultivating timber forests which will be used for coal-mining and paper-making; and
- to establish forest fund system.

#### *Administration and Transference of Forests*

The Forestry Law of the PRC and the Implementing Regulations for the Forestry Laws implement a registration system for forest, forestry trees and forestry land. Pursuant to relevant PRC laws and regulations, all forest, forestry trees and forestry land, whether owned by the state, the collectives, or individuals shall be registered with local people's governments at or above the county level. Relevant governments are responsible for compiling rosters and issuing certificates to confirm

the ownership or use rights of the forest, forestry trees or forestry land. All forest land in the PRC is either owned by the state or the collectives. Ownership of forestry land is not transferable in the PRC. However, certain kinds of forest land use rights, forest trees use rights, and forest trees ownership rights are transferable as long as the transfer is conducted in accordance with PRC laws and regulations.

According to PRC laws and regulations, the following types of forests, trees and forest land use right may be transferred, and may be appraised and converted as shares or used as funds or conditions for joint venture or cooperation of forestation and management of forests as well, provided that such forest land can not be changed into non-forest land:

- timber forests, economic forests and firewood forests;
- the right to use the land of timber forests, economic forests and firewood forests;
- the right to use the cut-over land or brulee of timber forests, economic forests and firewood forests; and
- other types of forests, trees or forest land use right stipulated by the State Council.

The Central Committee of the Communist Party of China and the State Council jointly promulgated the Opinions of Comprehensively Implementing Reformation of Collective-owned Forest Rights (《關於全面推進集體林權制度改革的意見》) on June 8, 2008, which provides transfer principles of collective-owned forest resources. According to the Opinions, the operating right of forest land and ownership of trees of such forest land may be transferred to other entities or individuals, provided that the forest land use purpose must not change. Further more, such transfer shall be publicly notified in advance in the collective organization and obtain consents of members of such collective organization. The parties in relation to the contracting of collective forestry land shall enter into a written agreement to clarify the liabilities and responsibilities of tree planting and forest cultivation, forest protection, prevention of forest fire and forest diseases and insect pests.

#### *The Logging, Transportation and Business Operation of Forests and Trees*

The Chinese government has enacted an extensive regulatory scheme governing the operation of business with respect to the logging, transportation and other relevant business operations of forests and trees. The primary regulator with oversight over the general business operation of forests and trees in China is State Forestry Administration (國家林業局) and its provincial and local branches. Enterprises engaging in the business of forestry in China must comply with strict licensing and approval requirements.

The key relevant licensing and approval requirements include:

- **Logging Permit**

Pursuant to PRC Forestry Law and its implementing regulations, any entities or individuals shall apply for logging permit before logging, except rural inhabitants who fell down their own trees on their own plots or around their houses. Any entities or individuals must strictly comply with the

requirements provided in the Logging Permit, including the logging location, site area, the tree species, logging amounts, the logging terms, etc.

In addition, the State draws up annual quota of felling trees and annual timber production plan, and the annual timber production shall not exceed the annual quota of felling. The Implementing Regulations for the Forestry Laws further stipulates that, for foreign invested plantation projects, the felling quota shall be allocated separately by provincial forestry departments within the annual felling quota approved by the State Council. According to the Implementation Regulations for the Forestry Laws, annual quotas for felling non-state-owned trees shall first be formulated at the county level for aggregation, balancing and verification by the competent forestry departments of provinces before the proposed annual quotas could be submitted to the State Council for approval. The annual quotas for felling trees shall be approved by the State Council every five years.

Furthermore, based on various usages, forests in the PRC have been divided into non-commercial forests and commercial forests. Non-commercial forests are mainly used for scientific research, environmental protection or other purpose other than commercial usage, and it is not allowed to log or destroy non-commercial forests. Commercial forests include timber forests, economic forests and firewood forests, which are permitted to logging and used for commercial purpose. As confirmed by our Company, most of our forests located in Yunnan province are timber forests and few are firewood forests.

- **Reforestation Requirement**

Entities or individuals that are to fell trees shall complete the task of reforestation in terms of the area, number of trees, types of trees and time limit as provided for in the felling licenses, and the area of reforestation and the number of trees required to be planted shall be no smaller than the original area and the number of trees felled. For those who has not complete the task of reforestation of last year, corresponding government authorities will deny to issue new logging permits to such entities or individuals.

- **Transportation Permit**

To transport timber out of a forest region, entities and individuals shall obtain transport permits from competent forestry departments, except for the timber under unified distribution by the State.

- **Timber Operation Certificate**

Any entity engaged in the timber business (including timber processing) in forestry areas must obtain an approval from the forestry bureau of the local government at the county level or above. Certain provinces impose further requirements for granting permission to engage in the timber business within certain areas, which means that any entity engaged in the timber operations and processing business within such provinces (not limited to the forestry areas) may need to obtain a timber operation permit from relevant forestry bureau.

- **Timber Exportation Limitation**

The State prohibits and restricts the export of rare trees and their products and derivatives. The catalogue of such trees, products and derivatives and the restricted annual amount for their export shall

be complied by the competent forestry department in conjunction with other relevant departments, and both shall be submitted to the State Council for approval.

According to the Forestry Law, the catalogue of rare species shall be approved by the State Council. A Circular Regarding Protection of Rare Species (《林業部關於保護珍貴樹種的通知》) was issued on October 8, 1992, together with the National Rare Species Catalogue (《國家珍貴樹種名錄》), which provided detailed scope of rare species. However, the above Circular and the Catalogue have been abolished by the State Forestry Administration on April 11, 2004 and the State Council does not promulgate any new national rare species catalogue so far. Therefore, China does not have an effective catalogue of rare species at present. As confirmed by our Company, our Yunnan forests do not contain any species of trees that were ever listed in the Catalogue. The species grown in our Yunnan forests are mainly Yunnan pine, oak and China fir, etc.

### **Laws and Regulations relating to Printing**

The Regulations on the Administration of Printing Industry (《印刷業管理條例》) were promulgated by the State Council and came into force on August 2, 2001. These regulations regulate the operations of printing publications, as well as the packaging and decoration materials on printed objects, such as paper, metal and plastic. Pursuant to the regulations, no one is allowed to engage in the printing business without obtaining a printing license. The printing license shall not be leased, lent or transferred. The Interim Measures on the Qualifications of Printing Operators (《印刷業經營者資格條件暫行規定》) which was issued by the General Administration of Press and Publication, or the GAAP (新聞出版總署), specify the qualifications required for enterprises engaged in printing operations. Printing operators must satisfy such qualification requirements in order to obtain approval for their establishment and printing licenses from the press and publication administration.

On January 29, 2002, the GAAP and the former Ministry of Foreign Trade and Economic Cooperation (原對外貿易經濟合作部) jointly issued the Interim Provisions on the Establishment of Foreign-invested Printing Enterprises (《設立外商投資印刷企業暫行規定》) (the “Interim Provisions”). Under the Interim Provisions, approvals by the press and publication administration are required for the establishment of foreign-invested enterprises engaged in the printing business. In addition, foreign-invested printing enterprises are not allowed to set up branches.

### **Laws and Regulations relating to Products Liability and Consumers Protection**

Product liability may arise if the products sold have any harmful effect on the consumers. The injured party may claim for damages or compensation. The General Principles of the Civil Law of the PRC (《民法通則》), which became effective in January 1987, state the manufacturers and sellers of defective products causing property damage and personal injury shall incur civil liabilities for such damage or injuries.

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) was enacted in 1993 and amended in 2000 to strengthen the quality control of products and protect consumers’ rights and interests. Under this law, manufacturers and retailers who produce or sell defective products may be

subject to the confiscation of earnings from such sales, revocation of business licenses and imposition of fines, and in severe circumstances, may be subject to criminal liabilities.

The Law of the PRC on Protection of the Rights and Interests of Consumers (《消費者權益保護法》) was promulgated on October 31, 1993 and became effective on January 1, 1994 to protect consumers' rights when they purchase or use goods or services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to consumers.

The PRC Tort Liability Law (《中華人民共和國侵權責任法》), which became effective on July 1, 2010, provides where a product endangers personal life or property due to its defect, the manufacturers and the distributors shall bear liability in tort.

### **Laws and Regulations relating to Environmental Protection**

We are subject to various PRC environmental protection laws and regulations promulgated by the central and local governments. These laws and regulations set out environmental protection measures in construction projects, use, discharge and disposal of toxic and hazardous materials, discharge and disposal of waste water, solid waste and waste gases, and control of industrial noise. The Ministry of Environmental Protection (中華人民共和國環境保護部) is responsible for the overall supervision and administration of environmental protection in the PRC.

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) effective as of December 26, 1989, units that cause environmental pollution and other public nuisances shall adopt effective measures to avoid and control the pollution and any damage caused to the environment, such as waste gas, waste water, waste residues, dust and noises generated during manufacturing or other activities. Pollution prevention facilities in construction projects shall be designed, built and put into operation together with the main part of the project. Construction projects can only be put into operation after the environmental protection authority has examined and approved the pollution prevention facilities. Enterprises and institutions discharging pollutants shall report to and register with the relevant authorities in accordance with the provisions of the environmental protection authority under the State Council. Units which are involved in manufacture, storage, transportation, sale and use of toxic chemicals and materials containing radioactive substances shall comply with the relevant regulations to prevent environmental pollution. The relevant authorities are authorized to impose various types of penalties on persons or entities in violation of the environmental regulations. The penalties which could be imposed include issue of a warning, suspension of operation or installation of facilities which are incomplete or fail to meet the prescribed standard, reinstallation of preventive facilities which have been dismantled or left idle, administrative sanction against officer-in-charge, suspension of business operations or shut-down of the enterprise or institution. Fines could also be levied together with these penalties.

According to the Law of the PRC on Appraising of Environment Impacts (《中華人民共和國環境影響評價法》) which came into effect on September 1, 2003, the PRC government has set up a system to appraise the environmental impact of construction projects, and to classify and administer environmental impact appraisals in accordance with the degree of the environmental impact. If the



construction project may result in a material impact on the environment, an environmental impact report thoroughly appraising the potential environmental impact is required. If the construction project may result in a slight impact on the environment, an environmental impact record analyzing or appraising the specific potential environmental impact is required. And if the construction project may result in minor impact on the environment, an environmental impact appraisal is not required but an environmental impact form shall be filed. The report is prepared by construction units and shall be approved by the relevant PRC authority before construction commences.

Other major environmental regulations applicable to our Group includes the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) together with the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), the Law of the PRC on the Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》) and the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》).

#### **Laws and Regulations relating to Fire Prevention**

Pursuant to the Fire Prevention Law of the PRC (《中華人民共和國消防法》), which became effective on May 1, 2009, certain construction projects need to be designed for fire prevention according to relevant national standards of construction technology and such design document of fire prevention mechanism of the construction project shall be submitted to the fire prevention departments for record or for approval. Upon completion of the construction project, its fire prevention mechanism shall be inspected by relevant fire prevention departments and obtain approval before commencement of operation.

#### **Laws and Regulations relating to Labor Relationship**

The labor relationship is mainly governed by the PRC Labor Law (《中華人民共和國勞動法》), which became effective from January 1, 1995, the PRC Labor Contract Law (《中華人民共和國勞動合同法》), which was adopted by the Standing Committee of the National People's Congress on June 29, 2007 and became effective on January 1, 2008 and the Implementation Rules of the PRC Labor Contract Law (《中華人民共和國勞動合同法實施條例》) which was passed by the State Council on September 18, 2008. The PRC Labor Contract Law and its implementation rules imposes certain requirements in respect of human resources management, including, among other things, signing labor contracts with employees, terminating labor contracts, paying remuneration and compensation and making social insurance contributions. Such laws and its implementation also impose requirements relating to minimum wage, severance payment and non-fixed term employment contracts, and establish time limits for probation periods as well as the duration and the number of times that an employee can be placed on a fixed term employment contract. It also provides that social insurance is required to be paid for the employees and the employees are entitled to unilaterally terminate the labor contract if this requirement is not being satisfied.

**Laws and Regulations relating to Imports and Exports**

Some of our products are exported to foreign countries, mostly to the U.S., and we also import a small quantity of timbers from overseas to satisfy our production. Therefore we are subject to the Chinese laws and regulations in relation to import and exports.

The Foreign Trade Law of the PRC (《對外貿易法》) was promulgated on May 12, 1994 and amended on April 6, 2004 by the Standing Committee of the National People's Congress to develop foreign trade in areas such as the import and export of goods, technology and international service, and to maintain order in foreign trade and promote the advancement of China's economy. The Foreign Trade Law and the Measures for the Archival Filing and Registration of Foreign Trade Operators (《對外貿易經營者備案登記辦法》) which were promulgated by the Ministry of Commerce on June 25, 2004, require enterprises engaged in foreign trade to register with the relevant authorities in charge of foreign trade under the State Council and obtain permissions for their foreign trade operations, if necessary. In addition, the Foreign Trade Law addresses such issues as intellectual property infringement, unfair competition, tax evasion and civil and criminal liabilities for violations of the foreign trade orders.

The Law of the PRC on Import and Export Commodity Inspection (《進出口商品檢驗法》) was promulgated by the Standing Committee of the National People's Congress on February 21, 1989 and amended on April 28, 2002, and the Regulations for the Implementation of the Law of the PRC on Import and Export Commodity Inspection (《中華人民共和國進出口商品檢驗法實施條例》) were promulgated by the State Council on August 31, 2005 and came into force on December 1, 2005. The main objectives of this law and its implementation regulations are to strengthen the inspection of, and ensure the quality of, import and export commodities to protect the lawful rights and interests of the parties involved in foreign trade, and to promote the development of China's economic and trade relations with foreign countries. The AQSIQ oversees inspections, while local entry-exit inspection and quarantine bureaus (出入境檢驗檢疫局) shall perform inspections in areas under their jurisdiction.

Pursuant to this law and its implementation regulations, the AQSIQ shall publish from time to time a catalog of imported and exported commodities which shall be subject to the compulsory inspection by local entry-exit inspection and quarantine bureaus. Such inspections cover quality, specifications, quantity, weight and packaging and requirements for safety, hygiene, health, environmental protection and anti-fraud protection, among others, and are governed by compulsory standards or other inspection standards under the law. Any violation of the relevant provisions of this law, such as evading commodity inspections, may result in fines and other penalties. Serious violations may subject the responsible individual or enterprise to criminal liabilities.

Under the circumstances that any goods imported or exported of PRC include plants, animals and their products, containers, packing materials, as well as means of transport from animal or plant epidemic areas, such goods shall be subject to quarantine inspection in accordance with the Law of PRC on the Import and Export Animal and Plant Quarantine (《中華人民共和國進出境動植物檢疫法》), which became effective in April 1, 1992, and its implementations. The import plants, animals and their products can not enter into the PRC before passing the quarantine inspection. Violation of the Law and its implementations may result in the imposing of fines and penalties, withdrawal of quarantine permits or even criminal liabilities in severe cases.



**Laws and Regulations relating to Production Safety**

The PRC Production Safety Law (《中華人民共和國安全生產法》), which became effective on November 1, 2002, is the principal law governing the supervision and administration of production safety in the PRC. This law requires manufacture entities to meet the relevant legal requirements, such as providing its staff with training and a handbook on production safety and providing safe working conditions in compliance with relevant laws, rules and regulations. Any production entities unable to provide the required safe working conditions may not engage in production activities.

Violation of the PRC Production Safety Law may result in the imposing of fines and penalties, the suspension of operations, an order to cease operations, or even criminal liability in severe cases.

**Laws and Regulations relating to Intellectual Property Rights**

China has adopted comprehensive legislation governing intellectual property rights, including trademarks, patents and copyrights. China has adhered to the main international conventions on intellectual property rights and has become a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

***Patent Law***

The National People's Congress adopted the Patent Law of the PRC (《中華人民共和國專利法》) in 1984, and amended it in 1992, 2000 and 2008. The purpose of the Patent Law is to protect the lawful interest of patentee and encourage invention, foster applications of invention and promote the development of science and technology. A patentable invention or utility model must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The Patent Office under the State Council is responsible for receiving, examining and approving patent applications. A patent is valid for a term of 20 years in the case of an invention and a term of ten years in the case of a utility model and design, starting from the application date. A third-party user must obtain consent or a proper license from the patent owner to use the patent except for certain specific circumstances provided by law. Otherwise, the use will constitute an infringement of the patent rights. Any contract for licensing of the exploitation of a patent is required to be filed with the patent administration department under the State Council within three months from the date of effectiveness.

***Trademark Law***

Registered trademarks are protected under the Trademark Law of the PRC (《中華人民共和國商標法》) adopted in 1982 and amended in 1993 and 2001. The PRC Trademark Office of the States Administration of Industry and Commerce (國家工商行政管理總局商標局) is responsible for the registration and administration of trademarks throughout China. The PRC Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark which has already been

registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark shall not prejudice the existing right of others obtained by priority, nor shall any person register in advance a trademark that has already been used by another person and has already gained “sufficient degree of reputation” through that person’s use by illegitimate means. After receiving an application, the PRC Trademark Office will make a public announcement if the relevant trademark passes the preliminary examination. Any person may, within three months after such public announcement, file an opposition against a trademark that has passed a preliminary examination. The PRC Trademark Office’s decisions on rejection, opposition or cancellation of an application may be appealed to the PRC Trademark Review and Adjudication Board, whose decision may be further appealed through judicial proceedings. If no opposition is filed within three months after the public announcement period or if the opposition has been overruled, the PRC Trademark Office will approve the registration and issue a registration certificate, upon which the trademark is registered and will be effective for a renewable ten-year period, unless otherwise revoked.

### *Regulations on Domain Names*

The Ministry of Information Industry of the PRC (中華人民共和國信息產業部), which has changed to the Ministry Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), re-promulgated its Administrative Measures on China Internet Domain Names (《中國互聯網絡域名管理辦法》) in 2004. According to the measures, applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to and enter into registration agreements with domain name registration service institution. The applicants could become the holder of such domain names upon the completion of the registration procedure. The measures prohibit the registration and use of domain names with any content that may:

- violate the basic principles set forth in the Constitution Law of the PRC (《中華人民共和國憲法》);
- jeopardize state security, disclose any State secret, subvert state authority or harm national unity;
- damage national dignity or interests;
- incite ethnic hatred or discrimination or damage ethnical unity;
- harm State religious policies or advocate heresy or feudal superstition;
- disseminate rumors, disrupt social order or sabotage social stability;
- disseminate obscenity, pornography, gambling, violence, murder, terror or induce crimes;
- humiliate or defame any other person, or infringe the legal interests of any other person; or
- be otherwise prohibited by the PRC laws and regulations.

**Laws and Regulations relating to Taxation**

Our income from wood flooring production and sale of wood flooring products are mainly subject to enterprise income tax and value added tax.

The PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) (the “EIT Law”) and its implementation regulations (《中華人民共和國企業所得稅法實施條例》), which became effective on January 1, 2008, impose a uniform enterprise income tax rate of 25% on both domestic and foreign-invested enterprises.

Under the EIT Law and its implementation regulations, enterprises are either resident enterprises and non-resident enterprises. Resident enterprises are enterprises established under the laws of PRC or established under the laws of a foreign country or region whose “de facto management bodies” is located within the PRC territory. Resident enterprises are subject to the uniform 25% enterprise income tax rate as to their global income. Non-resident enterprises are enterprises established under the laws of a foreign country or region whose “de facto management bodies” are not located within the PRC territory but have organization or premise in the PRC, or have no organization or premise in the PRC but have incomes sourced within the PRC. If an organization or premise is set up in the PRC by a non-resident enterprise, its will be subject to enterprise income tax on the income derived from such organization or premise in the PRC and the income derived from outside the PRC but with actual connection with such organization or presence in the PRC. For a non-resident enterprise which has not set up an organization or premise in the PRC, or has set up an organization or premise but the income derived has no actual connection with such organization or premise, its income derived in the PRC will be subject to enterprise income tax at a reduced rate of 10%, unless it is entitled to reduction or elimination of such tax, including by tax treaties or agreements.

Pursuant to the Provisional Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例》) which was promulgated on December 13, 1993 and amended on November 5, 2008, and its implementation regulations (《中華人民共和國增值稅暫行條例實施細則》), which were promulgated on December 15, 2008, all of which became effective on January 1, 2009, unless stated otherwise, the tax rate for value-added tax payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC shall be 17%.

**Laws and Regulations relating to Foreign Exchange**

Pursuant to the PRC Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》) promulgated in 1996 and amended in 1997 and 2008 by the State Council and various regulations issued by the SAFE and other relevant PRC government authorities, the Renminbi is freely convertible only to the extent of current account items, such as trade-related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investments, require the prior approval from, or registration with, the SAFE or its local counterpart for conversion of Renminbi into a foreign currency, such as US dollars, and remittance of the foreign currency outside the PRC. Payments for transactions that take place within the PRC must be made in Renminbi, with limited exceptions.

Pursuant to the SAFE Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents' Financing and Roundtrip Investment through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), or the SAFE Circular No. 75, issued by the SAFE on October 21, 2005, (i) a PRC resident shall register with the local branch of the SAFE before it establishes or controls an overseas special purpose vehicle, or an overseas SPV, for the purposes of overseas equity financing (including convertible debt financing); (ii) when the PRC resident contributes the assets of or its equity interests in a domestic enterprise into an overseas SPV, or engages in overseas financing after contributing such assets or equity interests into an overseas SPV, such PRC resident shall register his or her interest in the overseas SPV and the change thereof with the local branch of the SAFE; and (iii) when the overseas SPV undergoes a material capital related event outside of China, such as change in share capital or merger or acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register or file such change with the local branch of the SAFE. The SAFE subsequently issued relevant guidance with respect to the operational process for the SAFE registration under the SAFE Circular No. 75, which standardized more specific and stringent supervision on the registration relating to the SAFE Circular No. 75 and imposed obligations on onshore subsidiaries of the overseas SPV to coordinate with and supervise the beneficial owners of the overseas SPV who are PRC residents to complete the SAFE registration process. Under the SAFE Circular No. 75 and relevant SAFE rules, failure to comply with the registration procedures set forth above may result in restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the overseas SPV, and penalties on the PRC residents and/or the PRC subsidiary of the overseas SPV.

We have been advised by our PRC legal advisor, Haiwen & Partners, that none of the beneficial owners of our Company is PRC resident under the SAFE Circular No. 75 and therefore they do not need to do foreign exchange registrations for their investments in our Group in accordance with PRC laws.

#### **Laws and Regulations relating to Overseas Listing**

On August 8, 2006, six PRC regulatory agencies, including the Chinese Securities Regulatory Commission, or CSRC, promulgated a rule entitled Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》), or the M&A rule, which became effective on September 8, 2006 and were subsequently amended on June 22, 2009. The M&A rules include provisions that purport to require offshore special purpose companies, controlled directly or indirectly by PRC companies or individuals with a view to listing on an overseas stock exchange with their operating companies or assets in China, to obtain the approval of the CSRC prior to the listing and trading of their securities on any overseas stock exchange.

Our PRC legal advisor, Haiwen & Partners, has confirmed that, because we are not directly or indirectly controlled by PRC companies or individuals and we have not conducted any acquisition as defined in the new M&A rule after its effective date, we are not required to obtain any approval from CSRC or any other PRC governmental authorities under current PRC laws for the Global Offering and Listing under current PRC laws and regulations.

**Laws and Regulations relating to Employee Share Options**

Pursuant to the Implementation Rules of the Administrative Measures on Individual Foreign Exchange (《個人外匯管理辦法實施細則》), or the Individual Foreign Exchange Rules, issued on January 5, 2007 by SAFE and relevant guidance issued in March 2007, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or any other qualified PRC agent, to register with SAFE and complete certain other procedures related to the share option or other share incentive plan. Foreign exchange income received from the sale of shares or dividends distributed by the overseas listed company is required to be remitted into a foreign currency account of such PRC citizen or be exchanged into Renminbi. In addition, the overseas listed company or its PRC subsidiary or other qualified PRC agent are required to appoint an asset manager or administrator, appoint a custodian bank and open dedicated foreign currency accounts to handle transactions relating to the share option scheme or other share incentive plan. We and our PRC employees who have been granted share options, or PRC option holders, will be subject to these rules upon the listing of our Shares on the Hong Kong Stock Exchange.

In addition, the State Administration for Taxation has issued circulars concerning employee stock options. Under these circulars, our employees working in the PRC who exercise stock options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee stock options. If our employees fail to pay their income taxes, or we fail to withhold them, we may face sanctions imposed by the tax authorities or other PRC government authorities.

**PERUVIAN LAWS AND REGULATIONS****Report on and Summary of the Major Forest Regulations**

The Organic Law for the Sustainable Use of Natural Resources, Law Nr. 26821, effective as of June 26, 1997 sets forth that the rights for the sustainable use of natural resources are granted to particulars through the modes that are established by special laws for each natural resource. In all cases, however, the Peruvian State keeps control over the natural resources as well as over its fruits and products as long as they are not granted to a particular entity through a legal title.

The Law on Forest and Wildlife, Law Nr. 27308, effective as of July 16, 2000 regulates the supervision, the sustainable use and the conservation of natural forest resources and wildlife, making compatible their use with the progressive appreciation of the environmental services of the forest, in harmony with the social, economic and environmental interests of Peru.

In this way, forest and wildlife resources that are to be kept in their sources and the forest lands of Peru form part of the National Forest Estate and they are restricted from farming and livestock use or from any other activities that may affect the vegetation cover or the sustainable use and the conservation of the forest resource, save in exceptional circumstances set out by special regulations.

For these purposes, Law Nr. 27308 considers forest resources to include all natural forests, forest plantations and lands whose major usability may be of forest production and protection and all other wild components of the emergent land and water flora.

On the other hand, the above Law establishes the classification of the forest concessions with timber-yielding purposes as concessions granted through public auction, and concessions granted through public bid. Likewise, it establishes the general guidelines to be observed for the use of the forest.

Implementing Regulations of the Law on Forest and Wildlife, approved by Supreme Decree Nr. 014-2001-AG, effective as of April 9, 2001 establishes the specific regulations applicable to the concessionaires. Among the main topics regulated which are referred to forest activities, the following are established: detailed contents of the general forestry management plan and annual operational plan as well as how to present the annual operational plans, the procedures to be followed when making adjustments in such documents, the procedure for their approval and the sanctions when there is non-fulfillment of such requirements. Likewise, the terms of payment for the right of use according to the provisions of the forest law are established.

In addition, the implementing regulations fix the main rights and obligations of the concessionaires, the grounds for lapsing, terms for the fulfillment of its obligations as well as the sanctions applicable for non-fulfillment. With respect to transformation and commercialization, they establish the processes for primary transformation of timber-yielding forest resources, among which we have the following: (i) sawmilling of lumber in rolls, squaring of saw-logs, re-sawmilling, shredding, chipping, rolling and production of pre-parquet; (ii) manufacture of posts, beams, timber, sleepers, planks, laths and dimensional lumber, and other similar products of lumber; (iii) production and packing of firewood and charcoal; and (iv) manufacture of non-standard packaging of wood, such as boxes, bins and other containers used for the transport of products.

Finally, the implementing regulations also address the protection of forest resources and wildlife, by virtue of which the conservation of forest and wildlife resources may include the protection of species and habitats due to their fragility, vulnerability or threatened situation, for which special measures such as bans, prohibitions or regulations, protection of specific habitats as well as measures of ecological restoration may be established.

#### **Commercial Activities in Cushioning Areas**

A portion of the Group's Peru forest concessions overlaps with the "cushioning area" (zona de amortiguamiento) of the Pacaya Samiria National Reserve, which is recognized as a Protected National Area in Peru. The Pacaya Samiria National Reserve is subject to the control of the National Service of Natural Areas Protected by the State, the Peru governmental agency having jurisdiction over national parks and reserves in Peru.

The Pacaya Samiria National Reserve has an extension of 2,080,000 hectares, and is located in the Peruvian Amazon, at the northeast of Peru, Region of Loreto. It is surrounded by its cushioning



area, which is a 10-kilometers-wide strip around the border of the national reserve, and which was officially declared as a natural reserve by means of Supreme Decree Nr. 016-82-AG dated December 12, 1982. The cushioning area was declared in order to preserve the environment of the core area of the Pacaya Samiria National Reserve. Pacaya Samiria is the largest Protected National Area in Peru, and one of the most important Peruvian wetlands. In accordance with its Master Plan approved by the National Service of Natural Areas Protected by the State for the period between 2009 and 2014 by means of Presidential Resolution Nr. 173-2009-SERNANP dated September 24, 2009, the Pacaya Samiria National Reserve is home to 965 species of wild plants, 59 species of cultivated plants and 1,025 species of vertebrate animals.

At the Group's request, the National Service of Natural Areas Protected by the State issued an opinion, namely Technical Opinion Nr. 016-2010-SERNANP-RNPS-J dated December 21, 2010, concluding that exploitation activities of woods can be pursued within the cushioning area of the Pacaya Samiria National Reserve, provided that these activities are conducted in accordance with the general forestry management plan and annual operational plan of Nature America S.A.C., which in turn must be supervised by the corresponding entity and the National Service of Natural Areas Protected by the State. The general forestry management plan and annual operational plan were approved on February 25, 2011 and March 23, 2011, respectively.

### **Forest Management**

Supreme Decree Nr. 014-2001-AG defines the management plan as the dynamic and flexible tool of management and control for the operations of forest management. Its conception and design must allow the identification with anticipation of the activities and operations required to achieve the sustainability of its use. Both the management plan and the reports of execution constitute public documents of free access, with forest engineers and/or specialized legal consultants registered before the forest authority being responsible for their elaboration.

Moreover, two levels of planning are set, which are: (i) the general forestry management plan, which provides the general frame of strategic planning and business projection for the long term, formulated as a minimum for all the term of validity of the concession; and (ii) the annual operational plan, which is the tool for the operational planning for the short term, that is, for the operating year of the concession which may or may not coincide with the calendar year. Once both these plans are approved by the regional government where the concession is located, commercial exploitation of the forest can occur in accordance with the terms of the approved plans.

### **Reforestation**

The general forestry management plan and the annual operational plan should include the methodology of species replacement, which may include natural regeneration, in which case there is no obligation on the concessionaire to carry out reforestation activities. The reforestation obligation is limited to what is established in the general forestry management plan and the annual operational plan.

According to the consolidated general forestry management plan of the Company, the management system used is the “polycyclic system based on natural regeneration”. Additionally, the mentioned document establishes that the Company would not conduct reforestation activities but would develop silvicultural treatments in relation to the harvested forests.

### **Protection Measures**

Supreme Decree Nr. 014-2001-AG sets forth the definition of the categories of the species, as well as their regime for possession, extraction and commercialization, without prejudice to the application of international treaties to which Peru is a part of.

Peru is part to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), which is aimed is to ensure that international trade in specimens of wild animals and plants does not threaten their survival.

### **Forest Operations (Cutting and Transport)**

Supreme Decree Nr. 014-2001-AG regulates the species and cutting diameters authorized for the extraction of specimens whose minimum cutting diameter and logs meet the characteristics established by the forest authority, in accordance with the corresponding regulations. Likewise, it establishes that the volume of standing timber removed is in accordance with the approved management plan, after payment of the corresponding right of use.

With regards to the transport authorizations of forest and wildlife raw products, said regulations define them as the documents that authorize the internal transportation of such products. In the case of specimens of wildlife, in the corresponding transport authorization it must be included the codes of the marks of the specimens to be transported.

In the case of lumber logs, they must have marks in each end with the authorized mark, whose code is included in the transport authorizations.

The forms of the transport authorizations must be registered before the forest authority and must be filled out and signed by the corresponding holder.

### **Primary Transformation and Commercialization**

Any person working in the activities of primary transformation and/or commercialization of raw forest products and/or which have a primary transformation, must keep compulsively a Book of Transactions which must register information about the transactions taking place (date of the transaction being registered, volume, weight or quantity of the received product, common and/or scientific names of the species, volume and weight or quantity of the processed product by specie, origin of the raw material, number and date of the forest transport authorization, etc.).

Likewise, he/she must submit to the Forest Authority an annual report of his/her activities.

The following are considered processes of primary transformation of timber-yielding forest resources: a) sawmilling of lumber in rolls, squaring of saw-logs, re-sawmilling, shredding, chipping, rolling and production of pre-parquet; b) manufacture of posts, beams, timber, sleepers, planks, laths and dimensional lumber, and other similar products of lumber; c) production and packing, of firewood and charcoal; d) manufacture of non-standard wooden packaging, such as boxes, bins, containers and the like used for the transport of products.

Any person working in the transformation and/or commercialization of forest products has the obligation of collecting from his/her suppliers the forest transport authorizations which support the transport of his/her products. Non-fulfillment of this regulation causes the confiscation of the products being transported.

The installation of plants for the primary transformation of forest products must be authorized by the Forest Authority.

The holders/owners of installations working in the transformation and/or the commerce of forest products can only commercialize or use products whose utilization has been authorized by the Forest Authority and those products which have been legally imported.

Any transformation plant of forest products must have a corresponding forest transport authorization in order to dispatch or transport each cargo of transformed products, excepting furniture, handicrafts and the like.

The use of power saws is prohibited, as well as of any other tool or machine which may have similar effects, for the longitudinal sawmilling of any forest species, for commercial and industrial purposes, unless expressly authorized by the Forestry Authority.

#### **Commercial Establishments and Warehouses of raw forest products**

The operation of commercial establishments and warehouses for raw forest products and said products with primary transformation must be authorized by the Forest Authority.

#### **Laws relating to Import and Export of Forest Products**

The import into Peru of forest products of foreign origin is subject to compliance with the provisions of forest and agricultural health legislation, the international commitments of Peru on bio-safety, plant and animal health and the commercialization of forest and wildlife products, and of the tax and customs dispositions currently in effect in Peru.

The export of forest products whose trade is regulated by national norms or treaties, agreements or international agreements of which Peru is a part of, must be authorized by the Forest Authority.

The Forest Authority also grants Export Permits for Forest and Wildlife products, which have business, scientific, or cultural diffusion and ornamental purposes, consistent with the provisions of the Forest Law, of its Regulations and of the International Agreements and Covenants subscribed by the Peruvian State on conservation and sustainable use of the biological diversity, Convention on International Trade in Endangered Species of Wild Fauna and Flora and other norms on the matter.

Export permits for components of the biological diversity such as seeds, specimens, parts of specimens or others, do not authorize activities of variety improvement, research and biotechnological development or industrial use, nor may the permits grant property rights over their genetic resources. The export permits only authorize their direct commercialization, consumption and growing if the case may be.

#### **Laws and Regulations relating to Imports and Exports Customs and Excise**

The General Customs Law, approved by means of Legislative Decree Nr. 1053, establishes that customs services are designed in order to facilitate foreign trade and contribute to the development of the nation.

The General Customs Law and its regulations, approved by Supreme Decree Nr. 010-2009-EF, rule the tax-customs regime within the customs territory regarding: (i) the entry and exit of goods, (ii) clearance of goods, (iii) applicable customs regimes, (iv) customs administrative misdemeanors and their corresponding penalties, (v) special customs destinations, and (vi) customs controls in charge of the Customs Administration with respect to the international traffic of goods, vehicles and individuals.

In this sense, it must be noted that “customs regimes” are grouped as follows: (i) import regimes, (ii) export regimes, (iii) perfection regimes, (iv) customs warehousing regimes, (v) transit regimes, and (vi) other exceptional regimes.

The “consumption import regime” is a specific kind of import regime which allows the legal entry of goods from abroad only if they are imported by any individual or entity duly domiciled in Peru for consumption purposes. Non-resident individuals or entities may import goods under this regime if they establish a tax domicile in Peru or appoint a representative domiciled in Peru. Under this regime, the goods are nationalized and become freely available to the owner or consignee, subject to the payment of a predetermined fee.

However, “forbidden goods” (*i.e.*, goods which are expressly forbidden to be imported by the law or due to security issues, public health and morality, among others) cannot be imported and “restricted goods” can only be imported if a special authorization is granted by the corresponding authority.

Proceedings regarding import shall be carried out before the Customs Authority by: (i) the main importer, in case the value of the goods (on a free-on-board basis) indicated in the commercial invoice does not exceed US\$ 2,000, or (ii) a customs agent duly authorized to perform its activities within the jurisdiction of the Customs Intendance where the clearance of the good will be carried out, in any other case.

On the other hand, the “definitive export regime” is a specific kind of export regime applying to goods in free circulation that leave the customs territory for final use or consumption abroad, which allows exports to be performed in a short timeframe and at a reduced cost by eliminating most of the requirements and/or obstacles to export.

Goods to be exported under this specific regime are not subject to any tax payment although a customs clearance fee is charged in some cases.

In this sense, any goods can be imported, except for those which are classified as “forbidden goods” or “restricted goods” in the lists published by the Ministry of Economy and the Ministry of Agriculture, among others.

In addition, perfection regimes are aimed at facilitating the entry of raw materials or supplies into Peru free from payment of customs duties and other taxes levied on their import, so long as they are processed for later re-export as a new product (named “compensation product” by the customs legislation). Such perfection regimes include:

- (i) the Temporary Admission for Active Perfection regime, which allows the entry into the customs territory of certain goods including raw materials, inputs, intermediate products, parts and accessories, with the suspension of payment of customs duties and other taxes applied on imports for consumption and applicable surcharges, in order for such goods to be exported within a specified period once such products have been applied towards manufacturing compensating products;
- (ii) the Temporary Export for Passive Protection regime, which permits the temporary export from the customs territory of national or nationalized goods to be processed, manufactured or repaired, and then re-imported as compensating products within twelve (12) months;
- (iii) the Drawback regime, which enables export goods to obtain a full or partial refund of customs duties levied on imported goods that are used as components in goods that are to be exported or utilized during the production of such goods; and
- (iv) the Restocking of Merchandise in Duty-Free regime, which allows the import of consumer goods that are equivalent to those that have been nationalized or have been used to produce goods that have been previously exported as final, without payment of customs duties and other taxes on imports for consumption.

Finally, the Law on Customs Crimes, Law Nr. 28008, provides the definitions of customs crimes such as smuggling, evasion of customs duties and collection (*receptación*).

In addition, the Customs Administration has been granted powers to impose penalties regarding misdemeanors which do not exceed a certain amount. Likewise, the Law regarding Customs Crimes establishes aggravating circumstances in case that smuggling and/or evasion of customs duties is committed and: (i) the goods are firearms or “forbidden goods”, (ii) violence is used, or (iii) the value of the goods exceeds twenty (20) Tax Units (which is equivalent to S/. 72, 000).