## OVERVIEW

Set forth below are summaries of certain PRC policies, laws and regulations applicable to the paper making and printing industry.

## ESTABLISHMENT, OPERATION AND MANAGEMENT OF A WHOLLY FOREIGN-OWNED ENTERPRISE

The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC (中華人民共和國公司法) (the "**Company Law**"), which was adopted by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on 29 December 1993 and became effective on 1 July 1994. It was last amended on 27 October 2005 and became effective from 1 January 2006. Under the Company Law, the companies are generally classified into two categories: limited liability companies and limited companies by shares. The Company Law also applies to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have different stipulations, such stipulations shall prevail.

According to the Implementing Opinion on Several Issues Concerning the Application of Law in the Administration of the Examination, Approval and Registration of Foreign-invested Companies (關於外商投資的公司審批登記管理適用法律若干問題的執行意見) issued jointly by the State Administration for Industry and Commerce, MOFCOM, the General Administration of Customs and the State Administration of Foreign Exchange on 24 April 2006 and became effective on the same day, the organization structure of limited liability companies in the form of a foreign equity joint venture, wholly foreign-owned limited liability company or foreign-invested stock-holding limited company shall comply with the provisions of the Company Law and the articles of associations. Furthermore, where a foreign-invested company increases its registered capital, the shareholders of a limited liability company (including one-person limited company), or the stock holding limited company established by way of promotion shall pay no less than 20% of the registered capital to be increased when the company applies for modifying the registration of registered capital. The time of capital contribution of the remaining portion shall meet the provisions of the Company Law, the laws on foreign investment and Regulations on the Administration of Company Registration. If other laws or administrative regulations provide otherwise, such provisions shall prevail.

The establishment procedures, approval procedures, registered capital requirements, foreign currency exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the "**Wholly Foreign-owned Enterprise Law**"), which was promulgated on 12 April 1986 and amended on 31 October 2000, and the Implementation Rules to 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 12 December 1990 and amended on 12 April 2001.

## FOREIGN INVESTMENT IN PAPER AND PRINTING INDUSTRY

### General Provisions

In order to regulate foreign investment in certain industries in the PRC, the PRC government promulgates Catalogue of Industry for Guiding Foreign Investment (外商投資產業指導目錄) (the "**Catalogue**") from time to time. Over the past years, there have been several changes in the policies and regulations on foreign investment in the paper making and printing industry in the PRC.

On 28 June 1995, the former State Planning Commission, the former State Economic and Trade Commission and the former Ministry of Foreign Trade and Economic Cooperation (the "**Three Authorities**") promulgated the Catalog, under which foreign investment in manufacture of commercial-grade paper pulp was encouraged, foreign investment in printing was restricted, foreign investment in manufacture of rice paper was prohibited, while foreign investment in other paper manufacturing projects was permitted.

On 31 December 1997, the Three Authorities promulgated a revised Catalogue, which took effect and superseded the previous Catalogue on 1 January 1998. Pursuant to the revised Catalogue, foreign investment in manufacture of paper pulp with an annual production capacity of 170,000 tonnes or more of wood pulp, with a related raw material base was encouraged, foreign investment in printing was restricted (limited to company with the Chinese party holding the controlling or leading position), foreign investment in manufacture of paper and paper plate was restricted, foreign investment in manufacture of rice paper was prohibited, while foreign investment in the other paper manufacturing projects was permitted.

On 11 March 2002, the Three Authorities promulgated a revised Catalogue, which took effect and superseded the previous Catalogue on 1 April 2002. Under this revised Catalogue, foreign investment in (i) construction and operation of forest-wood pulp integration projects with annual chemical wood pulp production capacity of 300,000 tonnes or more, annual chemical mechanic wood pulp (CTMP, BCTMP, APMP) production capacity of 100,000 tonnes or more, and raw materials forest bases (limited to joint ventures and co-operative ventures); or (ii) production of high-grade papers and paperboards (excluding newsprint) was encouraged, foreign investment (with the Chinese Party having a controlling interest) in printing of publications other than decoration and packaging printing was restricted, foreign investment in manufacture of rice paper was prohibited, while foreign investment in other paper manufacturing projects was permitted.

On 30 November 2004, MOFCOM and 中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC*) promulgated a revised Catalogue, which took effect and superseded the previous Catalogue on 1 January 2005. Pursuant to this revised Catalogue of Industry Guidelines, foreign investment in (i) construction and operation of forest-wood pulp integration projects with annual chemical wood pulp production capacity of 300,000 tonnes or more, annual chemical mechanical wood pulp production capacity of 100,000 tonnes or more (only in the form of equity joint ventures and co-operative ventures); or (ii) manufacture of high-grade papers and paperboards (only in the form of equity joint ventures and co-operative ventures) was encouraged, foreign investment (with the Chinese party having a controlling interest) in printing of publications other than decoration and packaging printing was restricted, foreign investment in manufacture of rice paper was prohibited, while foreign investment in other paper manufacturing projects was permitted.

On 31 October 2007, MOFCOM and the 中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC*) promulgated a revised Catalogue, which took effect and superseded the previous Catalogue on 1 December 2007. Pursuant to this revised Catalogue, foreign investment in the construction of forest and paper integration project with annual chemical wood pulp production capacity of 300,000 tonnes or more for a single production line, and annual chemical mechanical wood pulp production capacity of 100,000 tonnes or more for a single production line and the simultaneous construction for the manufacture of high-grade paper and paperboards (only in the form of equity joint ventures or contractual joint ventures) was encouraged, foreign investment (with the Chinese party having a controlling interest) in printing of publications

other than decoration and packaging printing was restricted, foreign investment in manufacture of rice paper was prohibited, while foreign investment in other paper manufacturing project was permitted.

**Special Provisions**

*Policies for Paper Making Industry*

According to the China's 11th Five-Year Plan, the following proposals have been made: "adjusting structure of materials of the paper making industry; reducing water consumption and pollutants emission; eliminating obsolete straw pulp production lines; implementing forest-paper integration in suitable regions". In the light of the above proposals, the NDRC promulgated the Development Policy for Paper Making Industry (造紙產業發展政策) on 15 October 2007, pursuant to which the following policies were advocated: (i) using wood fibers and recovered paper as the major raw materials for paper manufacturing; (ii) raising the utilization rate and recycling rate of recovered paper; (iii) reducing the number of small-scaled paper manufacturing enterprises; (iv) introducing environmentally friendly technologies and skills to paper manufacturing enterprises to achieve the purpose of reducing pollutants; and (v) using recovered paper to manufacture newsprint paper and wrapping paper. "Scale and environment" will be a major concern for the development of the paper making industry and will subsequently pose a considerable impact on the management and development of paper manufacturers.

*Regulations for Printing Industry*

On 2 August 2001 the State Council promulgated 印刷業管理條例 (Regulations on the Administration of the Printing Industry*) which came into effect on the same day. The Regulations on the Administration of the Printing Industry applies to the operations of publications printings, decoration and packaging printing, and other printing operational matters.

The Regulations on the Administration of the Printing Industry provides that the State adopts license system for printing operations. No enterprise or individual may undertake printing operations without obtaining the license for printing operations according to these Regulations. Foreign investment in decoration and packaging printing can be established as a wholly foreign owned enterprise, while foreign investment is only allowed to participate in other types of printing business in the form of equity joint venture or contractual joint venture. Printing operator shall establish systems of printing undertaking verification, printing undertaking registration, printed goods custody, printed goods delivery and disposal of printed defective goods. Company that violates this regulation may subject to penalties including but not limited to fines, ordering to rectify, revocation of the licence, etc.

The Interim Provisions on the Establishment of Foreign Investment Printing Enterprise (設立外商投資印刷企業暫行規定) was implemented on 29 January 2002, which applies to the printing enterprises with foreign investment established in the PRC. The establishment of a foreign invested enterprise shall apply for the approvals from the General Administration of Press and Publication (中華人民共和國新聞出版總署) and former MOFOCOM or its local counterpart. The registered capital shall be no less than RMB10 million for foreign invested enterprise engaging in decoration and packaging printing and the term of operation of the enterprise shall be no more than 30 years. On 12 November 2008 the General Administration of Press and Publication and MOFCOM promulgated Supplement to the Interim Provisions on the Establishment of Foreign Investment Printing (關於設立外商投資印刷企業暫行規定的補充規定), which took effect on 1 January 2009. Pursuant to this supplement, the registered capital threshold for foreign invested enterprise engaging

in decoration and packaging printing as stipulated in the Interim Provisions on the Establishment of Foreign Investment Printing Enterprise is no longer applicable to Hong Kong or Macao investors. Hong Kong or Macao investors shall have the same registered capital requirement as domestic investors.

The Interim Measures on the Qualifications of Printing Operators (印刷業經營者資格條件暫行規定) was implemented on 9 November 2001. Enterprises undertaking decoration and packaging printing shall have fixed production and operation place(s) suitable for operation of printing business, which shall not be less than 600 square meters; shall have a minimum registered capital of no less than RMB1,500,000; shall have necessary equipment for decoration and packaging printing; shall have corresponding organizations and personnel necessary for the operation; shall have completed systems of printing undertaking verification, printing undertaking registration, printed goods custody, printed goods delivery, printed defective goods destroying, financial and quality control and its legal representative and major personnel in charge of production or operation shall be trained and shall obtain the certificate of completion of training of printing regulations.

**Licenses for Special Operations**

Pursuant to the Administrative Regulations on Power Business Licenses (電力業務許可證管理規定), which was promulgated on 28 September 2005 and effective from 1 December 2005, an enterprise that engages in the electric power business within the PRC is required to obtain electric power business license in accordance with the regulations. Unless special circumstances as prescribed by the State Electricity Regulatory Commission arise, no enterprise or individual may engage in the electric power business before obtaining an electric power business license. In particular, an enterprise that engages in the business of power generation is required to obtain a business license for power generation; an enterprise that engages in the business of power transmission is required to obtain a business license for power transmission; and an enterprise that engages in the business of power supply is required to obtain a business license for power supply. An enterprise that engages in two or more electric power businesses shall respectively obtain two or more electric power business licenses for their relevant electric power business.

In accordance with the Regulations of the PRC on Road Transport (中華人民共和國道路運輸管理條例), which was promulgated on 30 April 2005 and effective from 1 July 2005, anyone who wishes to engage in the freight transport business shall have: (i) vehicles that meet the demand of its business operations, and which are found, to be qualified after testing; and (ii) drivers that meet the requirements as prescribed in the relevant regulations as well as sound rules and bylaws regarding safe operations. Furthermore, anyone who wishes to engage in the freight transport business shall apply to the relevant road transport authority for a road transport business operation license and a vehicle operation certificate for the vehicle to be used for transport.

According to the Port Law of the PRC (中華人民共和國港口法), which was promulgated on 28 June 2003 and effective from 1 January 2004, a port operator is required to have fixed operation sites, corresponding facilities, equipment, professional technicians and management personnel relating to the operation businesses in place, as well as being qualified for other conditions specified by laws and regulations, in order to obtain the port operation license. Furthermore, anyone who wishes to engage in port operations shall apply to the relevant port administrative department for a port operation license and obtain registration of industry and commerce according to the PRC law.

## TAXES AND DUTIES APPLICABLE TO PAPER MAKING AND PRINTING INDUSTRY

### Income tax

*General Provisions*

Prior to 1 January 2008, income tax payable by foreign-invested enterprises in the PRC was governed by the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) (the "**FIE Tax Law**"), which was promulgated on 9 April 1991 and effective from 1 July 1991 and its related implementation rules. Pursuant to the FIE Tax Law, a foreign-invested enterprise was subject to a national income tax rate of 30% and a local income tax rate of 3% unless a lower rate was provided by other laws or administrative regulations. The income tax on foreign-invested enterprises established in Special Economic Zones, foreign enterprises which have establishments or places of business in Special Economic Zones engaging in production or business operations, and on foreign-invested enterprises of a production nature in Economic and Technological Development Zones, was levied at a reduced rate of 15%. The income tax on foreign-invested enterprises of a production nature established in coastal economic open zones, or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at a reduced rate of 24%. Any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempted from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a 50% reduction in the following three consecutive years.

According to the newly promulgated Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "**New Tax Law**"), which was promulgated on 16 March 2007 and effective from 1 January 2008, and the Implementation Rules to the New Tax Law (中華人民共和國企業所得稅法實施條例) (the "**Implementation Rules**"), which was promulgated on 6 December 2007 and effective from 1 January 2008, the income tax for both domestic and foreign-invested enterprises will be at the same rate of 25%. While qualifying small-scale enterprises with minimal profits are subject to the applicable enterprise income tax rate of 20% and high and new technology enterprises that require key state support are subject to the applicable enterprise income tax rate of 15%. The New Tax Law also provides certain relief that applies to enterprises that were established prior to 16 March 2007 if, (i) such foreign-invested enterprise enjoys reduced tax rates under the previous tax laws and regulations, the tax rate will be gradually increased to coincide with the new tax rate within five years starting from 2008; and (ii) such foreign-invested enterprise enjoys tax holidays for a fixed period under the previous tax laws and regulations, such foreign-invested enterprises can continue to enjoy the tax holiday until its expiry according to the provisions of the State Council. However, if an enterprise has not started to enjoy the tax holiday due to a lack of profit, 2008 will be regarded as the first profit-making year and the enterprise starts to enjoy the tax holiday.

*Special Provisions*

Pursuant to the Circular on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business (關於企業重組業務企業所得稅處理若干問題的通知) (the "**No. 59 Circular**"), which was promulgated on 30 April 2009 and effective from 1 January 2008, merger refers to the lawful merger of two or more enterprises, under which one or more enterprises (hereinafter referred to as the "**Merged Enterprise**") transfers all the assets and liabilities to another existing or newly-established enterprise (hereinafter referred to as the "**Merging Enterprise**") for the stockholders of

the merged enterprise to exchange for the equity or non-equity payment of the merging enterprise. General tax process provisions and special tax process provisions shall be applied to the merger based on different conditions.

The following general tax process provisions shall apply except it is provided otherwise in the No. 59 Circular: (i) the merging enterprise shall determine the tax base for all assets and liabilities received of the Merged Enterprise on the basis of fair value; (ii) income taxes of the merged enterprise and its shareholders shall be processed as liquidation; and (iii) the losses of the merged enterprise may not be covered through carry-over in the merging enterprise.

Where all the conditions provided in Article 5 of the No. 59 Circular are fulfilled and if the Merged Enterprise's shareholders obtain a payment of not less than 85% of its transaction payment amount at the time of the merger, or enterprises under the same controlling shareholder merge without paying consideration, the special tax process provisions shall apply to the equity payment in the transaction: (i) the tax base for the assets and liabilities of the Merged Enterprises received by the Merging Enterprise shall be determined based on the original tax base of the Merged Enterprises; (ii) relevant issues on income tax payment of the Merged Enterprises prior to the merger shall be succeeded by the Merging Enterprise; (iii) the losses of the Merged Enterprises shall be covered by the Merging Enterprise within certain limits; and (iv) the tax base for the equities of the Merging Enterprise obtained by the shareholders of the Merged Enterprise shall be determined based on the tax base for equities of the Merged Enterprises originally held by the same.

In respect of the conditions prescribed in Article 5 of the No. 59 Circular, the following items shall be included: (i) the merge has reasonable commercial purpose, and reduction, exemption or delay in tax payment is not its primary purpose; (ii) the portion of the acquired, merged or separated assets or equities conforms to the stipulations in the No. 59 Circular; (iii) the original material operating activities of the restructured assets are not changed within the consecutive 12 months after the enterprise merger; (iv) the payment amount involved in the transaction consideration of the merger conforms to the proportion stipulated in the No. 59 Circular; and (v) the original major shareholders to whom the equity payment are paid in enterprise merger may not transfer its equities obtained in the consecutive 12 months after the merger.

**Value-added Tax**

*General Provisions*

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值税暫行條例), which was latest amended on 5 November 2008 and effective from 1 January 2009 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax ("**VAT**"). VAT payable is calculated as "output VAT" minus "input VAT". The rate of VAT is 17% for those engaging in the sale or import of goods except otherwise provided by paragraph (2) and paragraph (3) of Article 2 in the Provisional Regulations on VAT of the PRC and is 17% for those providing processing services, repairs and replacement services.

*Special Provisions*

According to the Circular of the Ministry of Finance and the State Administration of Taxation on Policies of Value-added Tax on Renewable Resources (財政部、國家税務總局關於再生資源增值税政策的通知) (the "**No. 157 Circular**"), which was promulgated on 9 December 2008 and effective from 1 January 2009, ordinary value-added taxpayers are entitled to tax refund if the following

requirements are simultaneously met before the end of 2010: (i) the taxpayers that shall file a record with the relevant authorities in accordance with Articles 7 and 8 of the Administrative Measures for the Renewable Resource Callback (Order of MOFCOM [2007] No. 8) have filed a record in accordance with the relevant provisions; (ii) with fixed places for storing, sorting and processing the renewable resources; (iii) sales volume of renewable resources which has been settled by the financial institutions shall account for not less than 80% of the whole sales volume of renewable resources; and (iv) without any criminal punishment or administrative punishment (excluding the cautions and fines) from the industrial and commercial authorities, the authorities of commerce, environment protection, taxation and public security at or above county level because of the violation of the Anti-money Laundering Law of the PRC (中華人民共和國反洗錢法), the Environment Protection Law of the PRC, the Law of the PRC on the Administration of Tax Collection, the Invoice Administration Law of the PRC and the Administrative Measures for the Renewable Resource Callback since 1 January 2007.

For taxpayers qualified for tax refund, a refund with a proportion of 70% of the VAT on their renewable resources sales was made in 2009; and a refund with a proportion of 50% of the VAT on their renewable resources sales shall be made in 2010.

In accordance with the Notice on Adjustment of the Tax Refund Rate for Exported Goods (關於調整出口貨物退税率的通知) (the "**No. 222 Notice**") jointly issued by the Ministry of Finance and the State Administration of Taxation on 13 October 2003, effective from 1 January 2004, tax refund on the export of pulp and paperboard was eliminated. The elimination of the tax refund is intended to discourage the export of paper and paperboard due to increased domestic demand for such products. The elimination of tax refund also encouraged manufacturers of such products to make domestic sales. The increase in domestic supply may result in a reduction of imports of such products. According to the Notice on Lowering Certain Product Export Tax Rebates (關於調低部分商品出口退税率的通知) (the "**No. 90 Notice**") issued jointly by the Ministry of Finance and the State Administration of Taxation on 19 June, 2007, effective as of 1 July 2007, the tax refund rate on paper products was reduced from 13% to 5%. However, as part of the PRC's response to financial crisis, the tax refund rate of some of the paper products such as hand-made paper and paperboard, paper or paperboard made boxes, pouches, wallets and writing compendiums, etc were increased to 13% under the Notice of on Increasing Certain Light Textile and Electronic Information Products Export Tax Rebates (關於提高輕紡、電子資訊等商品出口退税率的通知) (the "**No. 43 Notice**") issued jointly by the Ministry of Finance and the State Administration of Taxation on 27 March 2009.

Tariffs on imported high-grade paper production equipment have been reduced in recent years to facilitate the introduction of new technology to expand capacity and increase efficiency. Foreign-invested enterprises meeting certain qualifications and regulatory requirements are entitled to tariff-free treatment on production equipment imported for self-use.

## URBAN MAINTENANCE AND CONSTRUCTION TAX AND EDUCATION SURCHARGE

According to 國務院關於統一內外資企業和個人城市維護建設税和教育費附加制度的通知 (Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals*), which was promulgated and took effect as of 18 October 2010, starting from 1 December 2010, 中華人民共和國城市維護建設税暫行條例 (Tentative Regulations on Urban Maintenance and Construction Tax of the PRC*) promulgated in 1985 and 徵收教育費附加的暫行規定 (Tentative Provisions on the Collection of Education Surtax*) promulgated in 1986 by the State Council shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Pursuant to Tentative Regulations on Urban Maintenance and Construction Tax of the PRC, which was promulgated on 8 February 1985 and became effective from 1985, and 國家税務總局關於城市維護建設税徵收問題的通知 (Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax*), which was promulgated on 12 March 1994 and with effect from 1 January 1994, any organization or individual liable to consumption tax, VAT and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, value-added tax and business tax which a taxpayer actually pays and shall be made simultaneously when the latter are paid. The rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town, respectively.

In accordance with Tentative Provisions on the Collection of Education Surtax, which was first promulgated in 1986, last revised on 20 August 2005 and took effect on 1 October 2005, all institutions and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay education surtax in accordance with these Provisions. The education surtax rate is 3% of the amount of value-added tax, business tax and consumption tax actually paid by each institution or individual, and the surtax shall be paid simultaneously with value-added tax, business tax and consumption tax.

## FOREIGN CURRENCY EXCHANGE

The principal regulation governing foreign currency exchange in China is 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**"). It was promulgated by the State Council of the PRC (中華人民共和國國務院) on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 1 August 2008. Under these rules, 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 SAFE is obtained.

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 (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In comparison, foreign exchange transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and prior approval or filing with the relevant governmental authorities (if necessary). Furthermore, the State shall administer foreign debts in a proportionate manner. Foreign debts borrowing shall be handled in accordance with relevant provisions of the State and registered as foreign debts at the relevant foreign exchange administrative authority.

## DIVIDEND DISTRIBUTION

Before the promulgation of the New Tax Law, the principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include the Wholly Foreign-owned Enterprise Law, the FIE Tax Law and their respective Implementation Regulations.

Under these regulations, wholly foreign-owned enterprises in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations and dividends paid to its foreign investors are exempt from withholding tax. However, the exemption provision in relation to withholding tax has been revoked by the New Tax Law which prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises.

The PRC and the government of Hong Kong signed Arrangement between the Mainland of the PRC and Hong Kong SAR 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關於對所得税避免雙重徵税和防止偷漏税的安排) on 21 August 2006 (the "**Arrangement**"). According to the Arrangement, a 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests of the PRC company. A 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests of the PRC company.

Furthermore, pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty Agreements (國家税務總局關於執行税收協定股息條款有關問題的通知), which was promulgated and became effective on 2 February 2009, all of the following requirements should be satisfied where a fiscal resident of the other party to the tax agreement can be entitled to a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (a) Such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (b) Equity interests and voting shares of the PRC resident company directly owned by such resident reaches a specified percentage; and (c) The equity interests of the PRC resident company directly owned by such fiscal resident, at any time during the twelve consecutive months prior to the receipt of the dividends, reaches a certain percentage specified in the tax agreement.

In addition, according to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (非居民享受税收協定待遇管理辦法(試行)) ("**Administrative Measures**") which came into force on 1 October 2009, where a non-resident enterprise(as defined under the PRC tax laws) that receives dividends from PRC resident enterprises intends to enjoy the favourable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise shall not enjoy the favourable tax treatments provided in the tax treaties.

## ENVIRONMENTAL PROTECTION

### General Provisions

The PRC has implemented strict environmental protection regulations on the papermaking and printing industry. Papermakers and printing operator should comply with the relevant environmental protection regulations for various papermaking and printing phases, including the construction of production project, completion of the construction, daily operation, manufacture and printing.

According to 中華人民共和國環境保護法 (Environmental Protection Law of the PRC*) promulgated on 26 December 1989 by 第七屆全國人民代表大會常務委員會 (the Standing Committee of the Seventh National People's Congress) ("**NPC Standing Committee**") and the regulations of the State Council issued thereunder, the Law of the PRC on the Prevention and Treatment of Water Pollution (中華人民共和國水污染防治法) approved by the NPC Standing

Committee on 11 May 1984, amended on 28 February 2008 and implemented on 1 June 2008, the State Environmental Protection Bureau of the PRC implements unified supervision and management of national environmental protection. The environmental protection bureaus at or above the county level are responsible for the environmental administration within their respective jurisdictions. According to the national environmental laws, the Ministry of Environmental Protection (環境保護部) sets national standards for pollutants emission and local environmental protection bureaus may set stricter local standards. Enterprises are required to comply with the stricter of the two standards.

Enterprises that cause pollution and other public hazards shall adopt environmental protection measures in their plans and establish a system for taking responsibility for environmental protection. Such enterprises shall also take effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and radiation generated in the course of production, construction or other activities. Enterprises discharging pollutants shall apply for registration in accordance with the requirements stipulated by the administration department of environmental protection of the State Council. Enterprises discharging pollutants in excess of the national or local prescribed standards shall pay a free for excessive discharge according to state provisions.

The PRC government may, according to the circumstances and the extent of the pollution, impose administrative penalties of different types and degrees on the violators (enterprises or individuals) of the relevant national environmental laws. Such penalties include warnings, fines, orders to make rectification within a specific period, orders to suspend production, orders to reinstall and use pollution treatment facilities that have been dismantled or left idle without prior approval, administrative sanctions on relevant responsible personnel and orders to close the business. The PRC government may also impose fines together with any of the abovementioned administrative penalties. The enterprises or individuals that have caused environmental hazards may be responsible to compensate the victim, and depending on the seriousness of the case, the personnel directly responsible may be investigated for criminal liability.

On 26 December 2009, the Standing Committee of the National People's Congress of the PRC promulgated 中華人民共和國侵權責任法 (Tort Liability Law of the PRC*), which came into effect on 1 July 2010. The Tort Liability Law highlighted the principle that polluters are to assume liability in respect of harm caused by environmental pollution, irrespective of whether they have breached national environmental protection regulations. The party that discharged the polluting substance bears the evidentiary burden of demonstrating that it is not liable for the harm in accordance with relevant provisions of the law, or that there is no causative link between its conduct and the harm caused to the victim. The law also provides that where the relevant environmental pollution was the fault of a third party, the person suffering harm as a consequence can claim compensation from either the third party itself or the party which actually discharged the polluting substance, with the polluter able to recover any damages paid to the victim from the third party if it can demonstrate that the environmental pollution was the third party's fault.

**Special Provisions**

*Environmental Impact Appraisal and Acceptance checks for construction of environmental protection facilities*

On 29 November 1998, the State Council promulgated Regulations on Environmental Protection Management for the Construction Project (建設項目環境保護管理條例). On 28 October 2002, the NPC Standing Committee approved 中華人民共和國環境影響評價法 (Law of the PRC on Appraising of Environmental Impacts*) which became effective on 1 September 2003. According to

such laws and regulations, the PRC Government has set up a system to appraise the environmental impact from project construction, and classify and administer the environmental impact appraisals in accordance with the degree of the environmental impact. For any project the construction of which may have a material impact on the environment, an environmental impact report which thoroughly appraises the environmental impact is required; for any project which may have a slight impact on the environment, an environmental impact statement analysing or appraising the specific environmental impact is required; and for any project which may have minimal impact on the environment, an environmental impact appraisal is not required but filing an environmental impact registration form is required. The construction unit must submit the aforesaid environmental impact appraisal documents to the relevant administrative departments of environmental protection for examination and approval. For any enterprise which fails to submit the aforesaid environmental impact appraisal documents according to the PRC laws and regulations or if the documents are not approved after examination by the relevant administrative departments, the departments responsible for approving the relevant project shall not approve such project and the enterprise shall not commence the construction of the project.

In addition to the environmental appraisal before the commencement of the construction project, pursuant to 建設項目環境保護管理條例 (Regulations on Environmental Protection Management for the Construction Project*), the construction unit shall, upon completion of a construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of construction of environmental protection facilities that are required for the said construction project. Besides, acceptance checks for completion of construction of environmental protection facilities shall be conducted simultaneously with the acceptance checks for completion of construction of the main body project. For construction projects that are built in phases, start production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities shall be conducted in phases.

*Import of Solid Wastes That Could Be Used As Raw Materials*

According to 廢物進口環境保護管理暫行規定 (Interim Provisions on Environmental Protection Management for the Import of Wastes*), which was promulgated by six authorities including the State Administration of Environmental Protection, the Ministry of Foreign Trade and Economic Cooperation, the State Administration of Customs, the State Administration of Industry and Commerce and the State Administration for the Inspection of Commodities Imported and Exported on 1 March 1996 and became effective on 1 April 1996, approval from the State Administration of Environmental Protection shall be obtained for the import of wastes which are restricted from import but can be used as raw material under the catalogue attached to the Interim Provisions on Environmental Protection Management for the Import of Wastes (the "**Catalogue of Wastes Restricted from Import (1996)**"). Besides, the Customs shall conduct inspection on wastes prescribed in the Catalogue of Wastes Restricted from Import (1996) and handle custom clearance formalities therefor on the strength of the certificate of approval for the import of wastes issued by the State Administration Of Environmental Protection and the certificate of up to standard issued by the agencies conducting import and export commodity inspection at the relevant ports. Furthermore, wastes to be imported shall be subject to pre-shipment inspection by the PRC commodity inspection agencies or commodity agencies that are designated or admitted by the State Administration for the commodity inspection and the shipment is not allowed unless the commodities are concluded as up to standard upon inspection.

Pursuant to the Announcement on the Introduction of New Licenses For the Import of Solid Wastes That Could Be Used as Raw Materials (關於啟用新版可用作原料的固體廢物進口許可證的公告) that was promulgated jointly by the State Administration of Environmental Protection, the State Administration of Customs and the General Administration of Quality Supervision, Inspection and Quarantine on 8 October 2005 and became effective on the same day, the State Administration of Environmental Protection has introduced new license for the import of solid wastes approved automatically from import which can be used as raw materials and of those restricted from import though can also be used as raw materials since 10 October 2005, and it has not since then issued any certificate of approval for the import of relevant wastes on. All of the old certificates of approval for the import of wastes ceased to be in force from 1 April 2006 and new licenses for the import of prescribed wastes were only effective for one year during which they are granted. Where new licenses shall be kept in use beyond one year as required by special situations, they will expire no later than 31 March of the following year.

In accordance with 關於進口可用作原料的固體廢物申請事項的公告 (Announcement on The Application of Licenses For The Import of Solid Wastes That Can Be Used As Raw Materials*), which was promulgated by the State Administration of Environmental Protection on 23 August 2007 and became effective on 1 October 2007, any one to apply for the license for the import of solid wastes approved automatically from import that can be used as raw materials shall file an application with the Registration and Management Centre for the import of wastes under the State Administration of Environmental Protection (the "**Registration Centre**"). And the license for the import of solid wastes approved automatically from import that can be used as raw materials which is issued by the State Administration of Environmental Protection when it is satisfied with the application upon examination thereof shall be sent to the unit making exploitation of wastes in accordance with its registered address on its business license by the Registration Centre by post. In comparison, any one to apply for the license for the import of solid wastes restricted from import that can be used as raw materials shall file an application with the Environmental Protection Authority in a prefecture-level city or in a municipal-level city. The Provincial Environmental Protection Authority shall produce lists of applications and send them to the Registration Center in one time by post or by other means after applications have been examined by both municipal and provincial Environmental Protection Authority which shall issue their opinions thereon separately. The Registration Centre will not accept any application directly filed by units or individuals other than the Provincial Environmental Protection Authorities. The license for the import of solid wastes restricted from import that can be used as raw materials which is issued by the State Administration of Environmental Protection when it is satisfied with the application upon examination thereof shall be sent to the provincial Environmental Authority having jurisdiction over the unit as the applicant and making exploitation of wastes by the Registration Centre by post. And the relevant provincial Environmental Authority shall grant the license to the unit making exploitation of wastes upon receipt thereof.

According to 關於調整進口廢物管理目錄的公告 (Announcement on the Adjustment of the Managerial Catalogue of the Import Wastes*), which was promulgated jointly by the MEP, MOFCOM, the National Development and Reform Commission, the State Administration of Customs and the General Administration of Quality Supervision, Inspection and Quarantine on 3 July 2009 and became effective from 1 August 2009, recycled unbleached kraft papers, corrugated papers or paper boards (including the scrap ones) (the customs commodity code of which is 4707100000), recycled bleached papers and paperboards manufactured from chemical wood pulp and without body staining (including the scrap ones) (the customs commodity code of which is 4707200000) and recycled papers and paper boards made from mechanical wood pulp such as waste paper, magazines and other similar publications (including the scrap ones) (the customs commodity

code of which is 4707300000) are prescribed in the catalogue of solid waste approved automatically from import which can be used as raw materials while other recycled papers or paperboards including unsorted scrap materials (the customs commodity code of which is 4707900090) are included in the catalogue of solid waste restricted from import which can be used as raw materials.

*The discharge, disposal and transfer of hazardous waste*

According to 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), which was promulgated on 29 December 2004 and became effective from 1 April 2005, an entity discharging hazardous wastes shall, pursuant to state provisions, work out a plan for managing hazardous wastes, and declare the types, production quantity, flow direction, storage, treatment and other relevant materials to the environmental protection departments of the local people's governments at or above the county level. Furthermore, the entities discharging, collecting, storing, transporting, using or treating hazardous wastes shall work out measures for keeping away and prepare counter plans against accidents, report them to the environmental protection administrative department of the local government at or above the county level for archival filing; and the environmental protection administrative department shall carry out the inspection on it. An entity that discharges hazardous wastes shall dispose hazardous wastes according to relevant provisions of the State, and shall not dump or pile up them without approval.

Whoever transfers hazardous wastes shall, according to relevant state regulations, fill in duplicate forms for transferring hazardous wastes and apply to the environmental protection administrative departments of the local people's governments at or above the level of city where the hazardous waste is to be moved out, which can approve the transfer of the said hazardous wastes after consulting and obtaining permission from the environmental protection administrative departments of the local people's governments at or above the level of city where the hazardous waste is to be moved in. No transfer may be conducted until it is approved. Where it is necessary to transfer hazardous wastes through administrative areas other than the areas where the hazardous waste is to be moved out or in, the environmental protection administrative departments of the local people's governments at or above the level of city where the hazardous waste is to be moved out shall timely notify the environmental protection administrative departments of the local people's governments at or above the level of city where the hazardous waste is to pass through.

*Discharge of Sewage*

As required in 中華人民共和國環境保護法 (Environmental Protection Law of the PRC*) promulgated on 26 December 1989 by the Standing Committee of the Seventh National People's Congress, enterprises discharging any pollutants in their daily operation and manufacturing shall observe the national discharge standards which are regulated by the former SEPA. In accordance with the aforesaid law, the MEP has established various discharge standards, as amended and revised from time to time, with regards to each of the discharge of water pollutants, solid pollutants, gas exhaust and noises. Since paper manufacturing and printing enterprises discharge pollutants in their daily operations, they are required to observe the pollutants discharge standards as promulgated and amended by MEP from time to time.

According to 中華人民共和國水污染防治法 (Law on the Prevention and Control of Water Pollution of the PRC*), as amended by the Standing Committee on 28 February 2008, and 中華人民共和國水污染防治法實施細則 (Regulations on the Implementation of the Law on the Prevention and Control of Water Pollution*) as promulgated by the State Council on 20 March 2000, enterprises which directly or indirectly discharge industrial waste water or medical sewage into water are

required to obtain a Pollutants Discharge Permit. The Pollutants Discharge Permit is issued to enterprises which discharge pollutants within the regulated discharge amount, and the Provisional Pollutants Discharge Permit is issued to enterprises which discharge pollutants in excess of the regulated discharge amount but will decrease the discharge amount within a certain time limit. Since paper manufacturing and printing enterprises discharge pollutants to the water in the course of production, they are required to apply for the Pollutants Discharge Permit or the Provisional Pollutants Discharge Permit as required by the aforesaid regulations.

Under 污染源監測管理辦法 (Measures on Pollution Sources Monitoring*), which was promulgated on and effective from 1 November 1999, enterprises discharging pollutants are subject to supervision of the pollution sources in their daily operation. According to the business nature of such enterprises, the requirements of the environmental management, the class of the discharged pollutants and the national pollutants discharge standards, the local environmental protection authorities will supervise the enterprises on their discharge outlets of pollutants and pollutants treatment facilities regularly. Since paper manufacturing and printing enterprises discharge sewage in the course of production, they are subject to the aforesaid supervision of pollution sources.

On 25 June 2008, the former SEPA and the General Administration of Quality Supervision, Inspection and Quarantine of the PRC issued Standards for the Discharge of Water Pollutant for the Pulp and Paper Making Industry (制漿造紙工業水污染物排放標準) which came into force from 1 August 2008 and sets stricter standards for the discharge of water pollutant for the paper-making industry.

*Water-Drawing*

According to 中國人民共和國水法 (Water Law of the PRC*) which was promulgated by the Standing Committee of the Ninth National People's Congress on 29 August 2002, and took effect on 1 October 2002 and 取水許可和水資源費徵收管理條例 (Regulation on the Administration of the Water Drawing Permit and the Levy of Water Resource Fees*) which was promulgated by the State Council on 21 February, 2006 and took effect on 15 April 2006, any enterprises and persons drawing water from rivers, lakes or underground shall apply to the water administrative departments or the drainage management departments for Water-drawing Permit and pay the water resource fees in order to obtain the water-drawing right in accordance with the national water-drawing permit system and the water resource fee system. The water administrative departments, finance departments and pricing control departments at the county level or above are responsible for collection, supervision and management of the water resource fee. Since paper making enterprises use a large amount of water in the course of production, such enterprises are required to apply for the Water-drawing Permit and pay the water resource fees in accordance with the aforesaid laws.

**Security and Protection of the Radioisotope and Radioactive Ray Devices**

As the paper machines of Yong Fa Paper has installed certain devices which are used to detect and monitor the thickness, humidity and other factors that determine the specifications of the papers and these devices are radioactive ray devices, Yong Fa Paper has obtained relevant license as required by the Regulations on Security and Protection of the Radioisotope and Radioactive Ray Devices (放射性同位素與射線裝置安全與防護條例), which was promulgated on 14 September 2005 and effective from 1 December 2005, the state carries out the administration on radioactive source and radioactive ray devices by imposing a classification. The radioactive source is classified into classes I, II, III, IV and V, and the radioactive ray devices are classified into classes I, II and III in accordance to the potential hazards of these radioactive source and these radioactive ray devices to

the human heath and environment. Furthermore, the issuance of licenses to entities that manufacture radioisotope, sell and use class I radioactive source, or sell and use class I radioactive ray devices, shall be examined and approved by the competent environment protection department under the State Council. The issuance of licenses to entities other than those abovementioned shall be examined and approved by the competent environment departments under the relevant provincial government, or by the Central Government in the case of autonomous regions or municipalities.

**Collection of Sewage Charges**

Our Group's PRC subsidiaries discharge pollutants into the atmosphere and water bodies during their ordinary business activities. During the Track Record Period, approximately RMB0.5 million, RMB0.5 million and RMB0.6 million was paid by the Group as sewage charges. According to the Regulations on the Collection and Use of Sewage Charges (排污費徵收使用管理條例), which was promulgated on 2 January 2003 and effective from 1 July 2003, where pollutants are discharged into the atmosphere or the ocean, the polluter shall pay sewage charges according to the types and number of pollutants discharged pursuant to the Law on the Prevention and Control of Atmospheric Pollution or the Marine Environmental Protection Law; where pollutants are discharged into water bodies, the polluter shall pay sewage charges in accordance with the types and number of pollutants discharged pursuant to the Law on the Prevention and Control of Water Pollution. If pollutants discharged into water bodies exceed the national or local discharge standards, the number of sewage charges to be paid shall be doubled in accordance with the types and number of pollutants discharged. However, anyone who discharges sewage to the centralised urban sewage treatment facilities and pay fees for sewage treatment are not required to pay any sewage charges once again. Where there are no storage building or disposal facilities and sites for industrial solid waste, or where the storage or disposal facilities and sites for industrial solid waste fail to meet environmental protection standards, the sewage charges shall be paid in accordance with the type and number of pollutants discharged pursuant to the Law on the Prevention and Control of Solid Waste Pollution; where the landfill disposal of hazardous waste fails to comply with state regulations, sewage charges shall be paid in accordance with the types and number of hazardous wastes. Anyone who produces environmental noise pollution exceeding the national noise standards shall pay sewage charges in accordance with the sound level of excessive noise emission pursuant to the Law on the Environmental Prevention and Control of Noise Pollution. Furthermore, in accordance with the Regulations on the Collection and Use of Sewage Charges, polluters who paid sewage charges shall not be exempted from the liability of the pollution, making compensation relating to the pollution made and assuming liabilities under other laws and administrative regulations.

**SOCIAL INSURANCE AND HOUSING PROVIDENT FUND**

China has improved its social security policy and established a system of laws and regulations in that regard. In recent years, China successively promulgated 中華人民共和國勞動法 (Labour Law of PRC*), 中華人民共和國勞動合同法 (Labour Contract Law of PRC*), 社會保險費徵繳暫行條例 (Interim Regulations on the Collection and Payment of Social Insurance Premiums*), 工傷保險條例 (Regulations on Work Injury Insurance*), 失業保險條例 (Regulations on Unemployment Insurance*), 企業職工生育保險試行辦法 (Trial Measures for Maternity Insurance of the Staff and Workers in Enterprises*) and many other regulations. According to the aforesaid laws and regulations, social insurance as core part of PRC social security system is composed of five parts: pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance (details of which vary with the legal requirements of different regions). An employer is obligated to pay its social insurance premiums and to withhold and pay its employees' portions to the relevant administrative authorities.

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), which was promulgated on 28 October 2010 and will be effective from 1 July 2011, employees shall participate in basic pension insurance and basic medical insurance schemes. Basic pension and medical insurance contributions shall be paid by both employers and employees. Employees shall participate in work-related injury insurance and maternity insurance schemes. Work-related injury insurance and maternity insurance contributions shall be paid by employers rather than employees.

Pursuant to the Social Insurance Law of the PRC, if an employer fails to pay work-related injury insurance contributions in accordance with the law, it shall pay work-related injury insurance benefits in the case of a work-related injury accident. If the employer fails to make such payment, the benefits shall first be reimbursed by the work-related injury insurance fund. Work-related injury insurance benefits reimbursed by the work-related injury insurance fund shall be repaid by the employer. If the employer fails to make repayment, social insurance agencies may recover such benefits from the employer in accordance with the law.

Furthermore, as to unemployment insurance, employers shall provide unemployed individuals with certification of expiry or termination of their employment in a timely manner, and within 15 days of such expiry or termination, inform social insurance agencies of the list of the unemployed individuals. Unemployed individuals shall undertake the procedures for unemployment registration with the designated public employment service institutions in a timely manner by producing the certification of expiry or termination of their employment issued by their former employers. The period for receiving unemployment insurance benefits shall be calculated from the date of unemployment registration.

An employer shall register with the local social insurance agency in accordance with the provisions of the Social Insurance Law of the PRC. Moreover, an employer shall declare and make social insurance contributions in full and on time. Except for mandatory exceptions such as force majeure, social insurance may not be paid late, reduced or be exempted. If an employer fails to report the social insurance premium payable in accordance with the relevant regulations, the social insurance agency shall provisionally set the amount payable at 110% of the premium paid in the previous month. Once the employer has retroactively undertaken the reporting procedures, the social insurance agency shall settle the amount in accordance with the relevant regulations. Where an employer fails to make social insurance contributions in full and on time, the social insurance agency may order rectification within a specified time limit. If the employer fails to rectify within the specified time limit, the social insurance agency may enquire with the relevant banks and financial institutions in which the employer has an account in, and may apply with the relevant administrative department above county level to allocate and transfer the unpaid social insurance contributions and notify the relevant banks or other financial institutions in writing to allocate and transfer the unpaid social insurance contributions. Where the balance in the employer's bank account is less than the overdue social insurance contributions, the social insurance agency may request the employer to provide a guarantee and sign a social insurance payment agreement for the delayed payment. If the employer does not make the social insurance contributions within the specified time limit and fail to provide a guarantee with respect to the same, the social insurance agency may request the people's court to seize the property of the employer (equivalent in value to the unpaid overdue social insurance contributions), and collect the overdue social insurance contributions from the proceeds obtained from the auction of such property.

In addition, pursuant to 住房公積金管理條例 (Administrative Regulations on Housing Provision Fund*) which was promulgated on 3 April 1999 and revised on 24 March 2002, enterprises are required to pay housing provision fund for their employees. The enterprises shall register with the relevant housing provision fund management center within 30 days from the date of

establishment, and open housing provision fund accounts with designated bank for their employees within 20 days from the date of the registration with the verified documents of the housing provision fund management center. Where an enterprise, in violation of the provisions of the Regulations, fails to make the payment and deposit registration of housing provision fund or fails to undergo the procedure for its workers and staff to open the housing provision fund account, the housing provision fund management center shall order it to be undertaken within a specified time limit; where it is not undertaken by the expiration of the specified time limit, a fine of not less than RMB10,000. Where an enterprise, in violation of the provisions of the Regulations, fails to pay or pays all or any of the housing provision fund by the expiration of the time limit, the housing provision fund management center shall order it to be paid and deposited within a specified time limit; where it is not paid and deposited by the expiration of the specified time limit, compulsory enforcement by the people's court may be applied.

## LABOUR CONTRACT AND OCCUPATIONAL PROTECTION

Effective as of 1 January 2008, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises or institutions and the labour under 中華人民共和國勞動合同法 (Labour Contract Law of the PRC*) (the "**Labour Contract Law**"). Enterprises and institutions are forbidden to force the labour to work beyond the time limit and the employers shall pay labour for overtime work in accordance with national regulations. In addition, the labour wages shall not be lower than local standards on minimum wages and shall be paid to the laborers timely. According to the Labour Law of the PRC (中華人民共和國勞動法) effective as of 1 January 1995, enterprises and institutions shall establish and perfect its system of work place safety and sanitation, strictly abide by State rules and standards on work place safety and sanitation, educate labour of work place safety and sanitation. Work place safety and sanitation facilities shall comply with national standards. The enterprises and institutions shall provide labor with work place safety and sanitation conditions which are in compliance with national stipulations and relevant articles of labour protection.

Pursuant to 中華人民共和國職業病防治法 (Law of the PRC on Prevention and Control of Occupational Diseases*), which was adopted by the Ninth Standing Committee of the National People's Congress on 27 October 2001 and became effective on 1 May 2002, for construction projects, including projects to be constructed, expanded and reconstructed, and projects for technical renovation and introduction, which may produce occupational diseases hazards, the unit responsible for the construction project shall, during the period of feasibility study, submit to the public health administration department a preliminary assessment report on the hazards. The said department shall, within 30 days from the date of the reports received, make a decision upon examination and inform the unit of the decision in writing. Where a unit fails to submit such a report to or obtain approval by the public health administration department after examination of the report, the authority concerned may not grant approval to the construction project. And before the construction project is completed for inspection and acceptance, the construction unit shall assess the effect of the control of occupational disease hazards when the project is completed and ready for inspection and acceptance. The facilities for prevention of occupational diseases may be put into formal operation and use only after they pass the inspection by the public health administration department.

## PRODUCTION SAFETY

In accordance with the 中華人民共和國安全生產法 (PRC Production Safety Law*) (the "**Production Safety Law**") which was adopted by the Ninth Standing Committee of the National People's Congress on 29 June 2002 and took effect on 1 November 2002 enterprises and institutions

shall be equipped with the measures for safe production as provided in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that is not equipped with the measures for safe production is not allowed to engage in production and business operation activities. Enterprises and institutions shall offer education and training programs to their employees regarding production safety. The design, manufacture, installation, use, checking, maintenance, repair and disposal of safety equipments shall be in conformity with the national standards or industrial standards. In addition, enterprises and institutions shall provide personal protective equipments that meet the national standards or industrial standards to their employees thereof, supervise and educate them to use these equipments according to the prescribed rules.

Pursuant to 特種設備安全監察條例 (Regulations on Safety Supervision of Special Equipment*), promulgated by the State Council of the PRC on 11 March 2003 and effective as of 1 June 2003 (amended on 14 January 2009 and effective from 1 May 2009), "special equipment" in the regulations refers to boilers, pressure vehicles (including gas cylinders), pressure pipelines, elevators, lifting alliances yard (factory) special motor vehicles, passenger ropeways, and large amusement devices, which relate to safety of human lives or having high risks. As required by the Regulations on Safety Supervision of Special Equipment, prior to the putting-into-service of any special equipment or within 30 days after such putting-into-service, units using special equipment shall register with competent departments for safety supervision and administration of special equipment. The registration mark shall be placed or attached to a prominent position on the special equipment. Furthermore, operators and the relevant managerial staff of boilers, pressure vessels, elevators, lifting appliances, passenger ropeways and large amusement devices shall not engage in corresponding operation or management until they have passed the examination organised by the departments for safety supervision and administration of special equipment as required by the State and acquired certificates for operators of special equipment.