

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

PRC LAWS ON PRODUCT LIABILITIES AND QUALITY CONTROL

1. The Law of the PRC on Protection of Consumer Rights and Interests 《中華人民共和國消費者權益保護法》

Pursuant to the Law of the PRC on Protection of Consumer Rights and Interests promulgated by the Standing Committee of the National People's Congress on October 31, 1993 and came into effect on January 1, 1994, both manufacturers and distributors will be held jointly liable for losses and damage suffered by consumers caused by the defective products they manufacture and distribute.

The Law of the PRC on Protection of Consumer Rights and Interests sets out standards of behavior which business operators must observe in their dealings with consumers, including the following,

- Goods and services provided by the business operators to consumers must comply with the Law of the PRC on Products Quality and other relevant laws and regulations, including requirements regarding personal safety and protection of property;
- Business operators shall provide consumers with authentic information concerning their commodities or services, and may not make any false and misleading propaganda. Business operators shall give truthful and definite replies to inquiries from consumers about the qualities of the commodities or services they supply and the operation methods thereof. Shops shall mark clearly the prices of the commodities they supply;
- Business operators who supply commodities or services shall make out for consumers invoices for purchases or documents of services in accordance with relevant regulations of the State or commercial practices; business operators must produce such invoices or documents in case consumers so demand;
- Business operators who are under the obligation of repair or caveat venditor, or other responsibilities in accordance with regulations of the State or agreements with consumers shall carry out such obligations correspondingly according to such regulations or agreements, and may not delay deliberately or refuse unreasonably to do so;
- Business operators shall indicate their real names and marks, and business operators who lease counters or grounds from others shall indicate their own real names and marks;
- Business operators may not, through format contracts, notices, announcements, entrance hall bulletins and so on, impose unfair or unreasonable rules on consumers or reduce or escape their civil liability for their infringement against the legitimate rights and interests of consumers. Format contracts, notices, announcements, entrance hall bulletins and so on with contents mentioned in the preceding paragraph shall be invalid.

Violations of the above articles may result in the imposition of fines. In addition, the business operator will be ordered to suspend its operations and its business licence will be revoked. Criminal liability may be incurred in serious cases.

According to the Law of the PRC on Protection of Consumer Rights and Interests, Consumers whose legitimate rights and interests are infringed upon in their purchasing or using commodities may

demand compensation from the sellers concerned. In case the liability is on the manufacturers or other sellers who supply the commodities to the said sellers, the said sellers shall, after paying the compensations, have the right to recover the compensations from the manufacturers or the other sellers. Consumers or other victims suffering personal injuries or property damage resulting from defects of commodities may demand compensations either from the sellers or from the manufacturers. If the liability is on the manufacturers, the sellers shall, after paying the compensations, have the right to recover the compensations from the manufacturers; if the liability is on the sellers, the manufacturers shall, after paying the compensations, have the right to recover the compensations from the sellers.

2. The Law of the PRC on Product Quality 《中華人民共和國產品質量法》

In accordance with the Law of the PRC on Product Quality promulgated by the Standing Committee of the National People's Congress on February 22, 1993 and amended on July 8, 2000, consumers who suffer losses or damages from defective products are entitled to be indemnified by either manufacturers or distributors. In addition, if manufacturers are responsible for the defective products and the losses or damage caused thereby, the distributors which have indemnified consumers for their losses may seek claims on the indemnities against the manufacturers.

Pursuant to Law of the PRC on Product Quality, sellers shall have the following obligations:

- Sellers shall adopt measures to maintain the quality of products for sale;
- Sellers may not sell any product that has been put into disuse by order of the state and therefore the sale of which has been prohibited or those that have lost effect or have deteriorated;
- Sellers are not allowed to fake the place of origin or fake or misappropriate the names and addresses of other producers;
- Sellers are not allowed to fake or misappropriate quality marks such as certification marks and fine quality marks;
- Sellers are not allowed to adulterate the products for sale or pose fake ones as genuine or shoddy ones as good or sub-standard ones as standard;
- Sellers shall ensure that the marks on the products or the packaging of the products are true.

Pursuant to Law of the PRC on Product Quality, producers shall have the following obligations:

- Products shall be free from any irrational dangers threatening the safety of people and property. If there are State standards or trade standards for ensuring the health of the human body and safety of lives and property, the products shall conform to such standards. Products shall have the functions they are due to have, except cases in which there are explanations about the defects of the functions of the products. Products shall tally with the standards prescribed or specified on the packages and with the quality specified in the instructions for use or shown in the providing samples;
- The marks on the products or the package of products shall be true to the fact and satisfy the relevant requirements;
- For products which are easily broken, inflammable, explosive, toxic, erosive or radioactive and products that cannot be handled upside down in the process of storage or

transportation or for which there are other special requirements, the package thereof shall meet the corresponding requirements, carry warning marks or warnings written in Chinese or points of attention in handling in accordance with the relevant provisions of the state;

- Producers are forbidden to produce products eliminated according to State laws or decrees;
- Producers are not allowed to fake the place of origin or fake or use the names and addresses of other producers;
- Producers are not allowed to fake or use the quality marks such as certification marks and fine quality product marks;
- Producers shall not adulterate their products or pose fake products as genuine or shoddy products as good or non-standard products as standard.

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

In accordance with Law of the PRC on Product Quality, Producers shall be responsible for compensating for damages done to the person or property except the defective products themselves (hereinafter referred to as “property of others”) due to the defects of products. Nevertheless, producers shall not be held responsible if they can prove one of the following cases: a. The products have not been put into circulation; b. The defects are non-existent when the products are put into circulation; c. The defects cannot be found at the time of circulation due to scientific and technological reasons.

PRC LAWS ON ENVIRONMENTAL PROTECTION

The main PRC environmental protection laws include: Law of the PRC on Environmental Protection 《中華人民共和國環境保護法》, Law of the PRC on the Prevention and Control of Water Pollution 《中華人民共和國水污染防治法》, Law of the PRC on the Prevention and Control of Atmospheric Pollution 《中華人民共和國大氣污染防治法》, Law of the PRC on the Prevention and Control of Pollution From Environmental Noise 《中華人民共和國環境噪聲污染防治法》 and Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste 《中華人民共和國固體廢物污染環境防治法》. These laws govern a broad range of environmental matters, including air pollution, noise emissions, water pollution and waste discharge.

1. Law of the PRC on Environmental Protection

Pursuant to Law of the PRC on Environmental Protection (the “Environmental Protection Law”) effective as of December 26, 1989, the Administration Supervisory Department of Environmental Protection of the State Council (“ASDEP”) shall establish national standards for environmental quality control. The governments of provinces, autonomous regions and municipalities directly under the Central Government may establish their own local standards for environmental quality control for the items not specified in the national standards and shall report them to the ASDEP for its record.

The Environmental Protection Law requires all enterprises and institutions that cause environmental pollution and other public hazards to incorporate and implement environmental protection policies into their plans and establish a responsibility system for environmental protection.

These enterprises and institutions shall adopt effective measures to prevent and control the pollution and damage to the environment from waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

Installations for the prevention and control of pollution in a construction project shall be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to be commissioned, until its installations for the prevention and control of pollution are examined and assessed to be up to the standard by the competent department of environmental protection administration which examines and approves the environmental impact statement.

2. Law of the PRC on the Prevention and Control of Water Pollution

In accordance with Law of the PRC on Prevention and Control of Water Pollution amended on February 28, 2008 and came into effect on June 1, 2008 and the Implementation Rules of Law of the PRC on Prevention and Control of Water Pollution 《中華人民共和國水污染防治法實施細則》 effective as of March 20, 2000, new construction projects, expansion, reconstruction projects and other installations which directly or indirectly discharge pollutants into the water body shall be subject to the state regulations on environmental protection of construction projects. Enterprises and institutions that discharge pollutants directly or indirectly into a water body shall report to and register with the local environmental protection department at or above the county level their existing facilities for discharging and treating water pollutants, and the categories, quantities and concentrations of water pollutants discharged under their normal operation conditions, and also submit technical information concerning prevention and control of water pollution to such department. Enterprises and institutions that discharge pollutants directly into a water body shall pay a pollutant discharge fee counted on the basis of categories, quantities and collection standards of the water pollutants discharged.

3. Law of the PRC on the Prevention and Control of Atmospheric Pollution

Under the Law of the PRC on Prevention and Control of Atmospheric Pollution amended on April 29, 2000 and effective as of September 1, 2000, new construction projects, expansion, or reconstruction projects that discharge pollutants into the air shall be subject to state regulations on environmental protection of construction projects. Enterprises and institutions that discharge atmospheric pollutants shall report their existing discharge and treatment facilities for pollutants and the categories, quantities and concentrations of pollutants discharged under normal operation conditions to the local concerning prevention and control of atmospheric pollution to such department.

The PRC government implements a system of collecting fees for discharging pollutants on the basis of the categories and quantities of the atmospheric pollutants discharged, and establishes reasonable standards for collecting the fees hereinbefore according to the needs of strengthening prevention and control of atmospheric pollution and the State's economic and technological conditions.

4. Law of the PRC on the Prevention and Control of Pollution From Environmental Noise

In accordance with the Law of the PRC on Prevention and Control of Environmental Pollution by Noise effective as of March 1, 1997, new construction project, expansion, or reconstruction project

shall be subject to the state regulations on environmental protection of construction projects. If noise pollutions are generated due to the use of fixed facilities during industrial production, the industrial enterprise shall report to the competent local administrative department of environmental protection at or above the county level about the categories and quantities of noise discharging facilities, the noise volume of noise discharged under normal operation conditions and the conditions of the facilities that prevent and control noise pollution. Meanwhile, the enterprise shall submit to the same department their technical information concerning prevention and control of noise pollution. Industrial enterprises which discharge noise shall take treatment measures and pay a fee for excess discharge according to State regulations.

5. Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste

Under the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste amended on December 29, 2004 and effective as of April 1, 2005, producers, distributors, importers and users of a product shall be responsible for the prevention and control of the solid wastes it generates or discharges since April 1, 2005.

PRC LABOR LAWS AND REGULATIONS

In accordance with the Labor Law of the PRC 《中華人民共和國勞動法》 promulgated on July 5, 1994 and effective as of January 1, 1995, enterprises and institutions shall establish and perfect their system of work place safety and sanitation, strictly abide by State rules and standards on work place safety, educate laborers in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall comply with State-fixed standards. The enterprises and institutions shall provide laborers with work place safety and sanitation conditions which are in compliance with State stipulations and relevant articles of labor protection.

Effective as of January 1, 2008, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the employees under the Labor Contract Law of the PRC (the “Labor Contract Law”) 《中華人民共和國勞動合同法》. Enterprises and institutions are forbidden to force the laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with national regulations. In addition, the labor wages shall not be lower than local standards on minimum wages and shall be paid to the laborers timely.

The PRC Law for Promotion of Employment 《中華人民共和國就業促進法》, promulgated by NPC Standing Committee on August 30, 2007 and effective as of January 1, 2008, provides that no employee can be discriminated in employment by reason of ethnic group, race, gender, or religious belief. The employer should neither refuse, nor request higher conditions for, the employment of any woman, merely because of such gender; and no provision limiting any woman employee in marriage and child-bearing is allowed in the labor contract. The employer should not refuse the employment of anybody just because of such person being an infection pathogen carrier, unless otherwise stated by laws and regulations. Additionally, enterprises should allocate the employee education fund intended for occupational training and further education of employees, violation of which may result in punishment imposed by the labor administration.

SOCIAL INSURANCE REGULATIONS

Pursuant to the Interim Regulations Concerning the Levy of Social Insurance Fees 《社會保險費徵繳暫行條例》 promulgated and implemented on January 22, 1999 by the State Council, the Interim Measures Concerning the Maternity Insurance of Enterprise Employees 《企業職工生育保險試行辦法》 promulgated on December 14, 1994 and implemented on January 1, 1995 by former Ministry of Labor, the Regulation Concerning the Administration of Housing Fund 《住房公積金管理條例》 promulgated and implemented on April 3, 1999 and amended on March 24, 2002 by the State Council, the Regulation on Occupational Injury Insurance 《工傷保險條例》 promulgated on April 27, 2003 by the State Council and implemented on January 1, 2004, the employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund, occupational insurance fund, maternity insurance fund and housing provident fund for the employees.

PRODUCTION SAFETY LAWS

Under the PRC Production Safety Law (the “Production Safety Law”) 《中華人民共和國安全生產法》, 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 since November 1, 2002. Further, 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 the employees thereof regarding production safety.

The designing, manufacturing, installation, using, checking, maintenance, repairing, reforming and disposal of safety equipments shall be in conformity with the national standards or industrial standards. In addition, enterprises and institutions shall provide labor protective equipments and articles that reach the national standards or industrial standards to the employees thereof, supervise and educate them to use these equipments and articles according to the prescribed rules.

PRC INCOME TAX LAW AND REGULATIONS

In accordance with the Enterprise Income Tax (“EIT”) Law of the PRC 《中華人民共和國企業所得稅法》 enacted on March 16, 2007 and the Implementation Regulations of Enterprise Income Tax Law of the PRC 《中華人民共和國企業所得稅法實施條例》 enacted on December 6, 2007 (collectively the “Income Tax Law”), which both took effect on January 1, 2008, the EIT for both domestic and foreign-invested enterprises are unified at 25%. For those enterprises established before March 16, 2007 and entitled to preferential income tax treatments by tax related laws and administrative regulations, the Income Tax Law provides for a five-year transitional period, during which the applicable EIT rate shall be converted to the unified rate at 25% gradually.

According to the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy 《國務院關於實施企業所得稅過渡優惠政策的通知》 issued on December 26, 2007 and took effect on January 1, 2008, enterprises that enjoy “2-year exemption and 3-year half payment”, “5-year exemption and 5-year half payment” of the enterprise income tax and other preferential treatments in the form of periodic tax deductions and exemptions in the past may, after the Income Tax Law took effect on January 1, 2008, continue to enjoy the relevant preferential treatments under the preferential measures and the time period set out in the previous tax law, administrative regulations and relevant documents until the expiration of the said time period.

However, the preferential time period applicable to an enterprise shall start to run from 2008 if such enterprise has not enjoyed the preferential treatments yet because of its failure to make profits. In addition, enterprises which were entitled to a preferential income tax at the rate of 15% will gradually be levied on the unified 25% tax within five years commencing on January 1, 2008. The transitional tax rates applied to the enterprises entitled to the 15% preferential rate are 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012. Enterprises which previously enjoyed the 24% preferential tax rate are imposed with the unified 25% tax rate from January 1, 2008. Further, the tax preferential treatments applied to enterprises within the designated great western development region in the PRC of western area will continue to be applied.

Under the Income Tax Law, income such as dividends, rental, interest and royalty from the PRC derived by a Non-Resident enterprise which has no establishment in the PRC or has establishment but the income has no relationship with such establishment is subject to a 10% withholding tax, which may be reduced if the foreign jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement, unless the relevant income is specifically exempted from tax under the applicable income tax laws, regulations, notices and decisions which relate to FIEs and their investors.

Pursuant to the Arrangement between the Mainland and Hong Kong Special Administrative Region 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避免雙重徵稅和防止偷漏稅的安排》 effective on January 1, 2007, the withholding tax rate for dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is 5%, if the Hong Kong enterprise owns at least 25% of the PRC enterprise. In accordance with the Notice of the State Administration of Taxation on issues relating to the administration of the dividend provision in tax treaties promulgated on February 20, 2009 《國家稅務總局關於執行稅收協定股息條款有關問題的通知》, the corporate recipients of dividends distributed by Chinese enterprises must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends.

REGULATIONS RELATING TO FOREIGN CURRENCY EXCHANGE

Under the Foreign Currency Administration Rules 《中華人民共和國外匯管理條例》 promulgated by the State Council in 1997 and amended in 1998 and various regulations issued by the SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, interest and dividend. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside China for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires prior approval from SAFE or its local office. Payments for transactions that take place within the PRC may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local office. Unless otherwise approved, domestic enterprises must convert all of their foreign currency proceeds into Renminbi.

FOREIGN INVESTMENT INDUSTRIAL GUIDANCE

Pursuant to applicable PRC regulations on Foreign-invested enterprise (“FIEs”), capital contributions from a foreign holding company to its PRC subsidiaries, which are considered FIEs, may only be made when the approval by the Ministry of Commerce or its local counterpart is obtained. In

approving such capital contributions, the Ministry of Commerce or its local counterpart examines the business scope of each FIE under review to ensure it complies with the Foreign Investment Industrial Guidance Catalog, which classifies industries in China into four categories: “encouraged foreign investment industries,” “restricted foreign investment industries,” “prohibited foreign investment industries” and “permitted foreign investment industries.”

According to the “Guideline Catalog of Foreign Investment Industries” promulgated on November 30, 2004, by the State Development and Reform Commission and the Ministry of Commerce, revised on November 7, 2007 and enforced on December 1, 2007, investments and operation in the area of footwear are classified as permitted foreign investment projects.

REGULATIONS RELATING TO DIVIDENDS DISTRIBUTION

The principal regulations governing dividend distributions by foreign invested enterprises includes: The PRC Company Law 《中華人民共和國公司法》; The PRC Chinese Foreign Equity Joint Ventures Law 《中華人民共和國中外合資經營企業法》; The PRC Chinese Foreign Equity Joint Ventures Law Implementation Regulations 《中華人民共和國中外合資經營企業法實施條例》; The PRC Wholly Foreign Owned Enterprise Law 《中華人民共和國外資企業法》; The Wholly Foreign Owned Enterprise Law Implementing Rules 《中華人民共和國外資企業法實施細則》.

Under these law and regulations, Foreign-invested enterprise such as Chinese Foreign equity joint ventures and wholly foreign owned enterprises (“FIEs”) in the PRC may pay dividends only out of their retained earnings, if any, subject to the PRC accounting standards and regulations. In addition, a FIE is required, as other enterprises subject to PRC laws, to set aside at least 10% of its after tax profits each year, if any, to fund statutory reserve funds until the cumulative amount of such funds reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Under the relevant PRC laws, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

PRC TRADEMARK LAW

In accordance with the Trademark Law of the PRC 《中華人民共和國商標法》 promulgated on August 23 1982, amended as of February 22, 1993 and October 27, 2001, the period of validity of a registered trademark shall be ten years since the date of approval of the registration. The administrative authority for industry and commerce has the power to investigate and handle any act of infringement of the exclusive right to use a registered trademark upon the Trademark Law and relevant regulations Where the case is so serious that it may constitute a crime, in addition to compensating for the losses suffered by the infringed, the infringer shall be investigated into for the criminal responsibilities according to law.

- Any of the following acts shall be an infringement against the right to exclusive use of a registered trademark;
- using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a license from the registrant of that trademark;
- selling the commodities that infringe upon the right to exclusive use of a registered trademark;

- forging, manufacturing without authorization the marks of a registered trademark of others, or selling the marks of a registered trademark forged or manufactured without authorization;
- changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; and
- causing other damage to the right to exclusive use of a registered trademark of another person.

In the event of any above mentioned acts which infringe against the right to the exclusive use of a registered trademark, the infringer would be imposed a fine, ordered to stop the infringement acts immediately, and give the infringed party compensation.

REGULATIONS RELATING TO ON-LINE SALES

The principal regulations governing on-lined sales conducted by foreign invested enterprise are the Telecommunication Regulations of the PRC 《中華人民共和國電信條例》, the Notice of the General Office of the Ministry of Commerce on the Relevant Issues concerning the Examination, Approval and Administration of Projects of Foreign Investment in Internet and Vending Machine Sales 《商務部辦公廳關於外商投資互聯網、自動售貨機方式銷售項目審批管理有關問題的通知》, the Interim Measures for the Trading of Commodities and Services through the Internet 《網絡商品交易及有關服務行為管理暫行辦法》, the Law of the PRC on Product Quality and the PRC on Consumer Rights and Interests.

Under these laws and regulations, either a foreign invested manufacturing enterprise or a foreign invested commercial enterprise may engage in online sales business subject to approvals registrations and filings upon the laws. To establish such foreign invested manufacturing enterprise, the investor(s) of the enterprise shall, as any other foreign invested enterprises shall, first obtain the approval from local foreign investment authority (MOFCOM or its relevant local branch) and register with the competent Administration of Industry and Commerce. In order to sell its products on its own website(s), the duly incorporated foreign invested enterprise then need to make filing with the relevant provincial telecommunication administrative authority. With the above-mentioned approval, registration and filing, the foreign invested enterprise can, of its own accord, operate online sales business of its products through its own website(s). The operator of online store which are companies shall display at the relevant webpage of its online store the information as indicated in its business license or the electronic link to its business license. Also, the operators of online stores shall comply with the Law of the PRC on Product Quality, the Law of the PRC on Protection of Consumer Rights and Interests and other laws and regulations, and shall not harm the legitimate interests of consumers. Further, the operators of online stores shall neither infringe the registered trademark, trade name, commercial secrets, nor damage the goodwill or reputation of any third party.

Saved as disclosed above and in this section, our business and operations in the PRC are not subject to any special legislation or regulatory controls other than those generally applicable to companies and businesses operating in the PRC.