

**OVERVIEW**

We are principally engaged in the automotive HVAC systems and HVAC components industry which is subject to various regulations in the PRC. The regulations focus on various aspects including but not limited to production, quality control, and environment protection. Below is a summary of some regulations which are important to our Group.

**LAWS AND REGULATIONS RELATING TO THE AUTOMOTIVE COMPONENTS INDUSTRY**

The PRC government administers its regulation of the automotive components industry primarily through:

- NDRC;
- AQSIQ;
- MIIT and
- 中華人民共和國環境保護部 (the Ministry of Environmental Protection of the PRC\*).

Each of the above government agencies has a different mandate to regulate the PRC automotive components industry. The NDRC is in charge of making the overall policy and mid-term to long-term development plan of the automotive components industry in China; the AQSIQ focuses on product quality control; the MIIT acts as a management department which stipulate policies and standards to guide the development of this industry; and the Ministry of Environmental Protection regulates environmental protection affairs relating to the investment in and construction of automotive manufacturing facilities and the manufacturing processes.

On 12 March 1994, the former 國家計劃委員會 (State Planning Commission\*) issued 汽車工業產業政策 (the Industrial Policy for the Automotive Industry\*) as an overall policy guideline for the automotive industry (including the automotive components industry) in China. Although the Industrial Policy for the Automotive Industry did not constitute a “law” or “regulation” in its formal sense, it constituted the cornerstone of the overall regulatory regime of the PRC automotive industry. On 21 May 2004, the NDRC issued 汽車產業發展政策 (the Automotive Industry Development Policy\*) to replace the Industrial Policy for the Automotive Industry. On 15 August 2009, the Automotive Industry Development Policy was further amended by the MIIT and the NDRC.

The Automotive Industry Development Policy sets forth some guidelines regarding the automotive components industry, including:

- to make a special development plan for automotive components, to guide and support production of automotive components through classification of products, to guide public funds to invest into the production of automotive components, and to impel enterprises with comparative advantages in producing automotive components to form the ability of specialization, mass production and the modularization of the supply of products;
- to give priority to automotive components enterprises which are able to supply components to several independent enterprises that produce whole cars, and which are integrated into the international system of procurement of automotive components, in aspects of technology introduction, technological transformation, financing and mergers and reorganisation;
- to encourage manufacturers of whole cars to further specialize in production and gradually change their internal parts manufacturing units into independent and specialized components manufacturing enterprises;
- to encourage enterprises that produce whole cars to procure components from third parties via electronic commerce or online procurement, on a step-by-step basis;
- to support automotive components manufacturers in establishing product research institutions to form innovative and self-development capabilities. Investment amount in the construction of research facilities of self-developed products shall be tax-deductible as long as such investment complies with the relevant tax provisions on promotion of enterprise technological progress; to support large automobile components manufacturers to develop components assembly with proprietary intellectual property and at an advanced level; and
- to subject the investment projects of automotive components to the filing procedures with the investment administration departments of the provincial governments.

On 20 March 2009, the General Office of PRC State Council issued 汽車產業調整和振興規劃 (the Restructuring and Rejuvenation Program of the Automotive Industry\*) (the “**Program**”), as an action plan for omnibus response measures of the automotive industry from 2009 to 2011. The Program specifies certain objectives, policies and measures in relation to the automotive components industry as follows:

- to boost the restructuring of the automotive industry. The key automotive components manufacturers are encouraged to expand their scale through merger, acquisition and reorganisation, and to increase their market share in the domestic and overseas markets;

- to realize the technological independence of key parts in engine, transmission, steering system, braking system, drive train system, suspension system and vehicle bus control system; to encourage the development of key parts that can improve the performance of whole cars;
- to implement automobile products export strategies; the construction of national export bases for automobiles and automotive components shall be accelerated;
- to improve the automobile enterprise reorganisation policies and to encourage automobile production enterprises to jointly develop and manufacture new automobile products and key parts and assemblies; and
- to make more investments in technological progress and innovation and to develop key parts and assemblies which fill the domestic vacancies, build the platforms for the research, development and testing of common technologies of automobiles and spare parts.

## LAWS AND REGULATIONS RELATING TO THE AUTOMOTIVE INDUSTRY

### Consumption Tax and Purchase Tax on Vehicles

The PRC Government has implemented the following tax policies applicable to the PRC automobile industry:

#### *Consumption Tax on Vehicles*

Pursuant to 關於調整和完善消費稅政策的通知 (the Notice on Adjusting and Perfecting Consumption Tax Policies\*) jointly promulgated by the PRC Ministry of Finance and the SAT on 20 March 2006, effective on 1 April 2006, an automobile consumption tax for passenger vehicles was adopted on 1 April 2006 as amended in 2008 and 2009. And pursuant to 關於調整乘用車消費稅政策的通知 (the Notice on Adjusting the Policy of the Consumption Tax on Passenger Vehicles\*) promulgated by the PRC Ministry of Finance and SAT on 1 August 2008 and effective on 1 September 2008, the automobile consumption tax rate for passenger vehicles with emission on or below 1 litre was reduced from 3% to 1%, whereas the automobile consumption tax rate applicable for those with emission 3 litres to 4 litres was increased from 15% to 25% and the automobile consumption tax rate applicable for those with emission above 4 litres was increased from 20% to 40%.

#### *Purchase Tax on Vehicles*

Pursuant to 中華人民共和國車輛購置稅暫行條例 (the PRC Tentative Regulations on Vehicle Purchase Tax\*) promulgated by the State Council on 22 October 2000, effective on 1 January 2001, the PRC Government adopted an automobile purchase tax at the rate of 10%.

To stimulate growth in the domestic automobile industry, according to the Program, the automobile purchase tax rate applicable to passenger vehicles with emission on or below 1.6 litres is reduced to 5% for vehicles purchased during the period from 20 January 2009 to 31 December 2009.

However, pursuant to 關於減徵1.6升及以下排量乘用車車輛購置稅的通知 (the Notice on Reduction of Purchase Tax for Passenger Vehicle with Emission On or Below 1.6 Litres\*), promulgated by the PRC Ministry of Finance and SAT on 22 December 2009 and effective on 1 January 2010, the automobile purchase tax rate increased from 5.0% to 7.5% for such vehicles purchased during the period from 1 January 2010 to 31 December 2010.

Starting from 1 January 2011, pursuant to 關於1.6升及以下排量乘用車車輛購置稅減徵政策到期停止執行的通知 (the Notice on the Discontinuation of the Reduction of Purchase Tax for Passenger Vehicle with Emission On or Below 1.6 Litres\*), this reduced automobile purchase tax rate was discontinued and the automobile purchase tax rate applicable to such small displacement vehicles has been resumed to 10%.

#### **Preferential Policies on Energy-efficient Vehicles**

Ministry of Finance, Ministry of Science and Technology jointly promulgated 關於開展節能與新能源汽車示範推廣試點工作的通知 (the Notice on the Demonstration and Promotion Pilot Project for Energy-Saving and New Energy Vehicles\*), which became effective on 23 January 2009. Pursuant to this Notice, the Ministry of Finance and Ministry of Science and Technology decided to carry out the demonstration and promotion pilot project for energy-saving and new energy vehicles in 13 cities such as Beijing, Shanghai, Chongqing, Changchun, Dalian, Hangzhou, Jinan, Wuhan, Shenzhen, Hefei, Changsha, Kunming, Nanchang, with a aim to expanding automobile consumption, speeding up the restructuring of the auto industry, promoting the industrialization of energy-saving and new energy vehicles; and the Ministry of Finance and Ministry of Science and Technology will use fiscal policies to encourage promoting the use of energy-saving and new energy vehicles in the public transportation, rental, sanitation, postal and other public service areas and grant subsidies to such entity which buys energy-saving and new energy vehicles.

On 14 October 2011, the Office of Ministry of Finance, the Office of Ministry of Science and Technology, the Office of Industry and Information Technology and the Office of the Development and Reform Commission have issued 關於進一步做好節能與新能源汽車示範推廣試點工作的通知 (the Notice on the Further Demonstration and Promotion Pilot Project for Energy-Saving and New Energy Vehicles\*), emphasizing that the pilot cities shall grant the subsidies to the manufacturers or users of energy-saving and new energy vehicles timely without delay.

#### **Trade-in Policies on Automobile Vehicles**

On 13 July 2009, the Ministry of Finance, the Ministry of Commerce, the Ministry of Propaganda, the State Development and Reform Commission, the MIIT, the Ministry of Public Security, the Ministry of Environmental Protection, the Ministry of Transportation,

the State Administration of Industry and Commerce, the General Administration of Quality Supervision, Inspection and Quarantine have jointly promulgated 汽車以舊換新實施辦法 (the Implementing Measures of the Trade-in of Automobiles\*), pursuant to which, during the period from 1 June 2009 to 31 May 2010, the early scrap old cars, “consists car” can be sold to the specified scrap car recovery and disassembling enterprises, and changed to a new car. Pursuant to 關於延長實施汽車以舊換新政策的通知 (the Notice on the Extension of the Trade-in Policies of Automobiles\*), which is promulgated by the Ministry of Finance, the Ministry of Commerce and the Ministry of Environmental Protection on 18 June 2010, the trade-in policies of automobiles was extended to 31 December 2010.

#### LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Foreign investors shall abide by 外商投資產業指導目錄 (Guidance Catalogue of Industries for Foreign Investment\*) (the “**Catalogue**”). The Catalogue was promulgated on 28 June 1995 and was revised from time to time. The currently effective Catalogue was promulgated by MOFCOM and NDRC on 24 December 2011 and became effective on 30 January 2012. The Catalogue classifies industries into three categories: Encouraged, Restricted and Prohibited. Except otherwise stipulated by other laws and regulations, foreign investors are permitted to invest in industries not listed in the Restricted or Prohibited categories. Part of industries in the Restricted category may be limited to equity or contractual joint ventures, in some cases with the Chinese shareholder as the controlling shareholder. Foreign investors shall not invest in industries in Prohibited category.

MOFCOM or the local authorities are responsible for approving the relevant joint venture contracts, articles of association of foreign invested enterprises and other substantial changes to foreign invested enterprises, including changes to capital, equity transfer and consolidation. As advised by our PRC Legal Advisers, the industries in which Xiezhong Nanjing, Xiezhong Beijing, Xiezhong Liaoning and Xiezhong Hubei are engaged did not fall within any of the 3 categories in the Catalogue and are permitted for foreign investment.

#### LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal law governing foreign currency exchange in the PRC is 中華人民共和國外匯管理條例 (the Foreign Exchange Administration Regulations of the PRC\*) (the “**Foreign Exchange Administration Regulations**”). The Foreign Exchange Administration Regulations was enacted by PRC State Council on 29 January 1996 and implemented on 1 April 1996. On 14 January 1997 and 5 August 2008, PRC State Council amended the Foreign Exchange Administration Regulations. According to the currently effective Foreign Exchange Administration Regulations, international payment in foreign exchange and transfer of foreign exchange under current items shall not be restricted. Foreign exchange income of a domestic institution or an individual may be transferred back into the PRC or deposited overseas, specific conditions and/or term requirements of which shall be determined by the competent foreign exchange administrative department of PRC State Council in light of the balance of international payments and the needs for foreign exchange control. An overseas institution or individual that makes direct investments in the

PRC shall handle the registration formalities at a foreign exchange administrative organ upon the approval of the competent department. A domestic institution or individual that makes direct investments or issues or trades negotiable securities or derivative products overseas shall handle the registration formalities in accordance with provisions of the foreign exchange administrative department of PRC State Council. If the relevant state provisions require the approval of or filing with the competent department, such approval or filing shall be obtained before handling the registration formalities.

The dividends paid by the subsidiary in the PRC to its overseas shareholders are deemed income of the shareholders and are taxable in China. Pursuant to 結匯、售匯及付匯管理規定(1996年) (the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996)\*), foreign-invested enterprises in China may purchase or remit foreign currency, subject to a cap approved by SAFE, for settlement of current account transactions without the approval of SAFE. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, SAFE and other relevant PRC governmental authorities.

Under Foreign Exchange Administration Regulations and various regulations issued by 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, interests and dividends. 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 repatriations of investments, require prior approval from SAFE or its local branch. Payments for transactions which take place in the PRC may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local branch. Unless otherwise approved, domestic enterprises must convert all of their foreign currency proceeds into Renminbi.

On 29 August 2008, SAFE promulgated 國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知 (the Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises\*) (the “SAFE Circular 142”), regulating the conversion by a foreign-invested enterprise with registered capital in foreign currency in Renminbi by restricting how the converted Renminbi may be used. The SAFE Circular 142 provides that the Renminbi capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its control of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested enterprise. The use of such Renminbi capital may not be altered without SAFE’s approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of the SAFE Circular 142 could result in severe monetary penalties.

## LAWS AND REGULATIONS RELATING TO TAXATION

## EIT

Prior to 1 January 2008, EIT payable by foreign-invested enterprises in the PRC was governed by 中華人民共和國外商投資企業和外國企業所得稅法 (the Foreign-Invested Enterprise and Foreign Enterprise EIT Law of the PRC\*) (the “**FIE Tax Law**”) promulgated on 9 April 1991 and became effective on 1 July 1991. According to the FIE Tax Law and its implementation rules, foreign-invested enterprises (engaging in the production of goods/services with an expected business life of over 10 years) from the year beginning to make profit were to enjoy full exemption from EIT in the first and second years and a 50% reduction in the third to fifth years. Foreign-invested enterprises operating in special economic development zones, especially those involving areas such as energy, transportation, port infrastructure and other State encouraged projects, were subject to EIT rate of 15% (before any exemption).

However, under the EIT Law, which was promulgated on 16 March 2007, EIT rates applicable to both domestic and foreign-invested enterprises were unified at 25% effective from 1 January 2008. On 26 December 2007, PRC State Council issued 國務院關於實施企業所得稅過渡優惠政策的通知 (the Notice on Implementation of Enterprise Income Tax Transition Preferential Policy under the PRC Enterprise Income Tax Law\*) (the “**Transition Preferential Policy Circular**”). According to the EIT Law and the Transition Preferential Policy Circular, Enterprises which enjoyed EIT rates of lower than the standard rate 33% are given a five-year transitional period. Such enterprises will continue to enjoy the lower tax rate before they are gradually subject to the tax rate of 25% within the transitional period. In particular, enterprises which were subject to an EIT rate of 15% would be subject to an EIT rate of 18% in 2008, increasing to 20% in 2009, 22% in 2010, 24% in 2011, and 25% in 2012. Enterprises which are enjoying two years of 100% exemption and three years of 50% reduction on tax payments may continue to enjoy such exemption and reduction until the term of such privilege expires.

The EIT Law and its implementing rule permit certain high and new technology enterprises strongly supported by the State which hold independent ownership of core intellectual property and simultaneously meet a list of other criteria, financial or non-financial, as stipulated in the implementation rule, to enjoy a reduced 15% enterprise income tax rate subject to certain new qualification criteria.

According to the Circular on Issues concerning 國家稅務總局關於實施高新技術企業所得稅優惠有關問題的通知 (the Implementation of Preferential Enterprise Income Tax Treatment for High and New Technology Enterprise\*), promulgated by SAT on 22 April 2009 and effective retrospectively as at 1 January 2008, upon the accreditation/re-examination of qualified high and new enterprise, such high and new enterprise can apply to enjoy the preferential enterprise income tax as at the current year beginning from the valid period approved by the accreditation/re-examination. The enterprises, upon obtaining the Certificate of High and New Technology Enterprise issued by the administrative departments for accreditation of high and new technology enterprises of province,

autonomous region, municipality or municipality with independent planning status, can apply to the competent tax authorities for tax reduction and exemption; upon fulfillment of those procedures, the high and new technology enterprise can make advance enterprise income tax declaration at a rate of 15% or enjoy a transitional preferential tax treatment.

## **VAT**

Pursuant to 中華人民共和國增值稅暫行條例 (the Provisional Regulations on Value-Added Tax of the PRC\*) and its implementation rules, both of which were amended in late 2008 and became effective from 1 January 2009 and the latter was further amended on 28 October 2011, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the import of goods are required to pay VAT. VAT payable is calculated as “output VAT for the current period” minus “input VAT for the current period”.

According to 國家稅務總局關於印發《出口貨物退(免)稅管理辦法(試行)》的通知 (the Circular of the State Administration of Taxation on Printing and Distributing the Measures for the Administration of Tax Refund (Exemption) for Export Goods (For Trial Implementation)\*) promulgated on 16 March 2005 and became effective on 1 May 2005, unless otherwise provided by law, for the goods as exported either directly by an exporter or via an export agency, the exporter may, after the export declaration and the conclusion of financial settlement for sales, file a report to the local office of SAT for the approval of refund or exemption of VAT or consumption tax on the strength of the relevant certificates. The scope of tax refund (exemption) for export goods, the tax refund rate and the measures of tax refund (exemption) shall be governed by the relevant provisions of the State.

## **LAWS AND REGULATIONS RELATING TO PATENT**

### **Protection under patent law**

According to 中華人民共和國專利法 (the PRC Patent Law\*) promulgated on 12 March 1984 and amended on 4 September 1992, 25 August 2000 and 27 December 2008 and 中華人民共和國專利法實施細則 (the Implementing Rules of the Patent Law of the PRC\*) promulgated on 15 June 2001 and amended on 28 December 2002 and 9 January 2010, patent protection is divided into three categories: invention patent, utility patent and design patent. Invention patent is intended to protect new technology or measures for a product, method or its improvement. Utility patent is intended to protect new technology or measures to increase the utility of a product shape, structure or its combination. Design patent is intended to protect new designs by combination of product shape, graphic or color with aesthetic and industrial application value.



- *Invention patent*

The products seeking invention patent protection must possess such characteristics as novelty, innovation and practicability and the grant of invention patent is subject to disclosure and publication requirement. Normally, the patent administrative authority publishes the application 18 months after application is filed, which may be shortened upon request by the applicant. The patent administrative authority conducts a substantive review as required by applicant within three years from publication or, if necessary, at its discretion to grant the invention patent, issue the certificate of invention patent and announce and register it if there is no cause of rejection of the application of the invention patent after substantive review. The term of protection is 20 years from the date of application.

Once an invention patent is granted, unless otherwise provided by law, no individuals or entities is permitted to engage in the manufacture, use, offer to sell, sale or import of the product protected by such patent or otherwise engage in the manufacture, use, offer to sell, sale or import of the product directly derived from applying the production technology or method protected by such patent for production and business purposes, without consent of the patent holder.

- *Utility patent*

The products seeking utility patent protection must also possess such characteristics as novelty, innovation and practicability. Utility patent is granted and registered upon application unless there are reasons for the patent administrative authority to reject the application after its preliminary review. The utility patent is also subject to the disclosure and publication requirement upon application. The term of protection is ten years from the date of application.

Once an utility patent is granted, unless otherwise provided by law, no individuals or entities is permitted to engage in the manufacture, use, offer to sell, sale or import of the product protected by such patent or otherwise engage in the manufacture, use, offer to sell, sale or import of the product directly derived from applying the production technology or method protected by such patent for production and business purposes, without consent of the patent holder.

- *Design patent*

The products seeking design patent protection must not be the same as or similar to those previously released in domestic or overseas publications, publicly used in the country or infringe upon third parties' legal rights. The application procedure and term of protection is the same as for utility patent.

Once a design patent is granted, no individuals or entities is permitted to engage in the manufacture, use, offer to sale or import of the product protected by such patent without consent of the patent holder for production and business purposes.

**LAWS AND REGULATIONS RELATING TO TRADEMARKS**

中華人民共和國商標法 (the PRC Trademark Law\*) was promulgated on 23 August 1982 and amended on 22 February 1993 and 27 October 2001 and 中華人民共和國商標法實施條例 (the Implementing Regulation of the Trademark Law of the PRC\*) was promulgated on 3 August 2002. These laws provide the basic legal framework for the regulation of trademarks in China. The Trademark Office of SAIC (the “**Trademark Office**”) is responsible for the registration and administration of trademarks throughout the country.

PRC law provides that the following acts constitute infringement of the exclusive right to use a registered trademark:

- use of a trademark that is identical with or similar to a registered trademark in respect of the same kind of or similar commodities without the authorization of the trademark registrant;
- sale of commodities infringing upon the exclusive right to use the registered trademark;
- counterfeiting or making, without authorization, representations of a registered trademark of another person, or sale of such representations of a registered trademark;
- changing a registered trademark and selling products on which the changed registered trademark is used without the consent of the trademark registrant; and
- otherwise infringing upon the exclusive right of another person to use a registered trademark.

**LAWS AND REGULATIONS RELATING TO PRODUCT QUALITY**

On 22 February 1993, the Standing Committee of NPC enacted 中華人民共和國產品質量法 (the Product Quality Law of the PRC\*), which was revised on 8 July 2000 and 27 August 2009 by the Standing Committee of NPC. The said law stipulates that producers shall be liable for compensation if its defective products cause damages to the person or property (other than the defective product itself) except that the producers can prove that the products have not been put into circulation; the defects are non-existent when the products are put into circulation; or the defects cannot be found at the time of circulation due to scientific and technological reasons. Where the case is severe enough to constitute a crime, criminal responsibility shall apply.

On 31 October 1993, the Standing Committee of NPC enacted 中華人民共和國消費者權益保護法 (the Law on Protection of Consumers Rights and Interests of the PRC\*), which became effective on 1 January 1994 and was revised by the Standing Committee of NPC on 27 August 2009. The rights and interests of consumers in purchasing and using commodities or receiving services for daily consumption shall be under the protection of the said law.

Business operators shall guarantee that commodities and services supplied conform to the requirements of personal and property safety. Where damages occur, business operators shall make compensations. Where the case is severe enough to constitute a crime, criminal responsibility shall apply.

All the products produced and sold in the PRC shall abide by these laws and regulations.

#### LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Pursuant to 中華人民共和國環境保護法 (the Environmental Protection Law of the PRC\*) promulgated and effective on 26 December 1989, the environmental protection department of PRC State Council (the “**State Environmental Protection Department**”) is in charge of promulgating national standards for environment quality. The local governments of provinces, autonomous regions and municipalities may also promulgate local standards for environment quality on matters not specified under national standards and the local governments must report such standards to the State Environmental Protection Department for record.

Pursuant to 中華人民共和國環境影響評價法 (the Law on Appraising of Environmental Impacts of the PRC\*) promulgated on 28 October 2002 and effective on 1 September 2003, manufacturers must prepare environmental impact appraisal report setting forth the impact the proposed construction project may have on the environment and the measures to prevent or mitigate the impact for approval by the government authority prior to commencement of construction of the relevant project. New facilities built pursuant to this approval are not permitted to operate until the relevant environmental bureau has performed an inspection and is satisfied that the facilities are in compliance with environmental standards.

Pursuant to 建設項目環境保護管理條例 (the Administrative Regulations on Environmental Protection for Construction Project\*) promulgated and effective on 29 November 1998 by PRC State Council, construction projects shall conduct assessment of environmental impact, obtain approval on such assessment and be examined and considered up to the environmental protection standard. Prior to the construction of new facilities or expansion or transformation of existing facilities that may cause a significant impact on the environment, a report on the environmental impact of the construction project shall be submitted to the relevant environmental protection authority. The newly constructed production facilities cannot operate until the relevant department is satisfied that such facilities are in compliance with all relevant environmental protection standards. Environmental protection facilities shall be designed, constructed and put into use simultaneously with the main project construction.

Pursuant to the requirements under 中華人民共和國水污染防治法 (the Law on Prevention and Control of Water Pollution of the PRC\*), which was promulgated on 11 May 1984 and amended on 15 May 1996 and 28 February 2008 and became effective on 1 June 2008, and 中華人民共和國大氣污染防治法 (the Law on Prevention and Control of Atmospheric Pollution of the PRC\*), which was promulgated on 5 September 1987 and

amended on 29 August 1995 and 29 April 2000 and became effective on 1 September 2000 and 排污費徵收使用管理條例 (the Administrative Regulations on Levy and Utilisation of Sewage Charge\*), which became effective on 1 July 2003, enterprises which discharge water or air pollutants shall pay discharge fees pursuant to the types and volume of pollutants discharged. The discharge fees are calculated by the local environmental protection authority, which shall review and verify the types and volume of pollutants discharged. Once the discharge fees have been calculated, a notice on payment of discharge fees shall be issued to the relevant enterprises.

Pursuant to 中華人民共和國固體廢物污染環境防治法 (the Law on Prevention and Control of Environmental Pollution Caused by Solid Wastes of the PRC\*), which was revised on 29 December 2004 and became effective on 1 April 2005, entities and individuals collecting, storing, transporting, utilising, or disposing of solid wastes shall take precautions against the spread, loss, and leakage of such solid wastes or adopt such other measures for preventing such solid wastes from polluting the environment.

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

The penalties for any breach of the environmental protection laws vary from warnings, fines, decisions to impose deadlines for cure, orders to stop production and imposition of administrative actions against relevant responsible individuals. Any entity whose construction projects fail to satisfy the requirements of pollution prevention may be ordered to suspend its production or operation and be subject to a fine. The responsible person of the entity may be subject to criminal liabilities for serious breaches resulting in significant damage to private or public property or personal death or injury.

## LAWS AND REGULATIONS RELATING TO LABOR AND SOCIAL INSURANCE

On 5 July 1994, the Standing Committee of NPC promulgated 中華人民共和國勞動法 (the Labor Law of the PRC\*), which became effective on 1 January 1995 and was revised by the Standing Committee of NPC on 27 August 2009. On 29 June 2007, the Standing Committee of NPC promulgated 中華人民共和國勞動合同法 (the Labor Contract Law of the PRC\*), which became effective on 1 January 2008. On 18 September 2008, PRC State Council promulgated 中華人民共和國勞動合同法實施條例 (the Implementing Regulation of Labor Contract Law of the PRC\*), which became effective on the day of promulgation. Pursuant to the said Laws, a written labor contract shall be concluded within one month from the date when the employee commences working; otherwise the employer shall pay twice of the monthly wage. Labor contract is divided into two types, namely labor contract with fixed term and labor contract without fixed term. Where the employee has already worked for the employer for 10 full years consecutively or the labor contract is to be renewed after two fixed-term labor contracts have been concluded consecutively, unless otherwise required by the employee or provided by the said Laws, a labor contract without fixed term shall be concluded.

中華人民共和國就業促進法 (the PRC Law for Promotion of Employment\*), promulgated by NPC Standing Committee on 30 August 2007 and effective as of 1 January 2008, provides that no employee can be discriminated in employment by reason of race, ethnic, gender, or religion. The employer should neither refuse nor request higher conditions for the employment of any woman because of their gender, except where the types of work or posts are not suitable for women as prescribed by the State; 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 anyone for the reason that the individual is a pathogen carrier, unless regulated otherwise. Moreover, enterprises should allocate the employee education fund for occupational training and further education of employees, violation of which may result in punishment imposed by the labor administration.

Pursuant to 中華人民共和國社會保險法 (the Social Insurance Law of the PRC\*) promulgated by the Standing Committee of NPC on 28 October 2010 and effective on 1 July 2011, 社會保險費徵繳暫行條例 (the Provisional Regulations concerning Levy of Social Insurance Fees\*) promulgated and implemented on 22 January 1999 by PRC State Council, 企業職工生育保險試行辦法 (the Interim Measures Concerning the Maternity Insurance of Enterprise Employees\*) promulgated on 14 December 1994 and implemented on 1 January 1995 by former Ministry of Labor, 住房公積金管理條例 (the Regulation Concerning the Administration of Housing Fund\*) promulgated and implemented on 3 April 1999 and amended on 24 March 2002 by PRC State Council, 工傷保險條例 (the Regulation on Work-Related Injury Insurance\*) promulgated on 27 April 2003 by PRC State Council and implemented on 1 January 2004 and amended on 20 December 2010 by PRC State Council, and regulations on pension insurance, medical insurance and unemployment insurance in the provincial and municipal level, the employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund, occupational injury insurance fund, maternity insurance fund and housing fund for the employees.

**LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY**

On 29 June 2002, the Standing Committee of NPC promulgated 中華人民共和國安全生產法 (the Production Safety Law of the PRC\*), which became effective on 1 November 2002 and revised by the Standing Committee of NPC on 27 August 2009. The production and business operation entities shall observe the said law and other relevant laws, regulations concerning the production safety, strengthen the administration of production safety, establish and perfect the system of responsibility for production safety, perfect the conditions for safe production, and ensure the safety in production. The major person-in-charge of the production and business operation of the entities shall take charge of the overall work of the production safety of the entity concerned.

Pursuant to 中華人民共和國工業產品生產許可證管理條例 (the Regulations of the PRC on the Administration of Production Licence for Industrial Products\*) which were promulgated by PRC State Council on 9 July 2005 and came into effect on 1 September 2005, and 中華人民共和國工業產品生產許可證管理條例實施辦法 (the Measures for the Implementation of the Regulations of the PRC on the Administration of Production Licence for Industrial Products\*) which were promulgated by the AQSIQ on 15 September 2005 and came into effect on 1 November 2005 and amended on 21 April 2010, enterprises producing industrial products that may affect production safety and public safety are subject to the requirements of production licences.

實行生產許可證制度管理的產品目錄 (the Catalogue of Industrial Products Implementing Production Licence\*) (the “**Catalogue of Industrial Products**”) which is subject to the system of production licence by PRC State Council shall be formulated, evaluated and adjusted from time to time by the competent department of production licence for industrial products of PRC State Council together with the relevant departments of PRC State Council, and be promulgated to the public after an approval is granted by PRC State Council. Any enterprise that fails to obtain the production licence shall not produce the products listed in the Catalogue of Industrial Products, and no unit or individual is allowed to sell or use such products which do not obtain the production licence in operating activities.

**LAWS AND REGULATIONS RELATING TO OVERSEAS LISTING**

On 8 August 2006, MOFCOM, SASAC, SAT, SAIC, CSRC, and SAFE, jointly promulgated 關於外國投資者併購境內企業的規定 (the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors\*) (the “**M&A Rules**”), which was effective on 8 September 2006 and repromulgated by MOFCOM on 22 June 2009. According to Article 2 of the M&A Rules, acquisition of a domestic enterprise by a foreign investor refers to the circumstance where a foreign investor purchases by agreement the equity interests of a domestic non-foreign enterprise (the “**Domestic Enterprise**”) or subscribes the increased capital of the domestic enterprise, and thus changes such domestic enterprise into a foreign-invested enterprise; or a foreign investor establishes a foreign invested enterprise, through which it purchases by agreement the assets of a domestic

enterprise and operates such assets; or a foreign investor purchases by agreement the assets of a domestic enterprise, and then uses such assets to invest in and establish foreign invested enterprise through which it operates such assets.

In addition, M&A Rules provides that an offshore special purpose vehicle (the “SPV”) established for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange in the event that the SPV acquires shares of or equity interests in Domestic Enterprise by way of share swap.

Since Xiezhong Nanjing was changed into a sino-foreign joint venture enterprise in February 2006, not a Domestic Enterprise, the reorganisations in connection with Xiezhong Nanjing by Xiezhong Hong Kong acquiring its equity interests in 2008 and 2010 are not equity acquisition or asset acquisition as defined in M&A Rules, thus M&A Rules are not applicable to the equity interests transfer of Xiezhong Nanjing in 2008 and 2010.

According to the Section (iii) headed “Special Rules of Special Purpose Vehicle” under the Chapter (IV) of the M&A Rules and our PRC Legal Advisers’ understanding to the PRC laws, a SPV formed for overseas listing purpose and directly and/or indirectly controlled by PRC enterprise(s) or individual(s), is required to obtain approval from the CSRC for its overseas listing in the event that the SPV acquires shares of or equity interests in Domestic Enterprise by way of share swap. As there is no circumstance where a foreign investor acquires equity interests in our PRC subsidiaries by way of share swap, our PRC Legal Advisers have advised that the M&A Rules do not apply to the listing of the Company and the approval of CSRC is not required.

Pursuant to the SAFE Circular No. 75 promulgated on 21 October 2005 by the SAFE and implemented since 1 November 2005, domestic residents engaged in stock right financing and roundtrip investment via overseas SPVs shall apply to the local branch or department of foreign exchange administration for foreign exchange registration of overseas investments. Pursuant to SAFE Circular No. 19, domestic residents who engaged in stock right financing and roundtrip investment via overseas SPVs as defined in the SAFE Circular No. 75 but have not undergone the foreign exchange registration shall make up the formalities of foreign exchange registration of overseas investment. The SAFE Circular No. 75 further provides that, where a SPV experiences a “major capital modification event” such as capital increase or decrease, stock right assignment or exchange, merger or division, investment with long term stock rights or credits, provision of guarantee to another party, etc., and is not involved in any roundtrip investment, the domestic resident shall, within 30 days of the major event, apply to the foreign exchange office for modification or archival filing of the foreign exchange registration of the overseas investments.

As advised by our PRC Legal Advisers, one of our beneficial shareholders who is a PRC resident, namely Mr. Chen Hao needs to submit application to the SAFE Jiangsu Branch for making up foreign exchange registration. On 30 December 2011, the SAFE Jiansu Branch imposed a fine of RMB50,000 on Mr. Chen Hao as a result of his failure to make foreign exchange registration. Mr. Chen Hao paid such fine on 30 December 2011 and made his registrations with the SAFE Jainsu Branch on 31 December 2011.

As advised by our PRC Legal Advisers, considering the fact that the SAFE Jiangsu Branch has imposed the fine on Mr. Chen Hao and Mr. Chen Hao has duly and fully paid such fine, the SAFE Jiangsu Branch shall not impose administrative penalty on Mr. Chen Hao and Xiezhong Nanjing once again for Mr. Chen Hao's roundtrip investment via overseas SPVs. Furthermore, since Mr. Chen Hao has completed the foreign exchange registration, it is compliant with the relevant laws and regulations for his indirect holding of equity of the domestic enterprises by way of holding the shares of Sunrise International.