1. THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution (《中華人民共和國憲法》) ("**PRC Constitution**") and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress ("**NPC**") and the Standing Committee are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the people's congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee. According to the "Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws" (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on 10 June 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations promulgated by them. At the regional level, the power to give interpretation of regional laws is vested in the regional legislative and administration organs that promulgate such laws. All such interpretations carry legal effect.

2. JUDICIAL SYSTEM

The People's Courts are the judicial organs of the PRC. Under the PRC Constitution and the "Law of Organization of the People's Courts of the PRC" (《中華人民共和國法院組織法》) originally promulgated on 1 July 1979 and amended on 31 October 2006 which became effective as of 1 January 2007, the People's Courts comprise the Supreme People's Court, the local people's courts, military courts and other special people's courts.

The local people's courts are divided into three levels, namely, basic people's courts, intermediate people's courts and higher people's courts. The basic people's courts are divided into civil, criminal, administrative and economic divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and, where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of people's courts at lower levels are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the proceedings of people's courts of the same and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts of all levels.

The people's courts adopt a two-tier final appeal system. A party may before the taking effect of a judgment or order appeal against the judgment or order of the first instance of a local people's court to the people's court at the next higher level. Judgments or orders of the second instance of the same level and at the next higher level are final and binding.

Judgments or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the "Civil Procedure Law of the PRC" (《中華人民共和國民事訴訟法》) ("**Civil Procedure Law**") originally adopted on 9 April 1991 (and amended on 28 October 2007 which became effective on 1 April 2008). The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the people's courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the people's court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. A foreign national or foreign enterprise is accorded the same litigation rights and obligations as a citizen or legal person of the PRC. If any party to a

civil action refuses to comply with a judgment or order made by a people's court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, order or award. And the time limit for aggrieved party to apply for such enforcement is 2 years.

A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognized and enforced according to the PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the people's court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

3. ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The "Arbitration Law of the PRC" (《中華人民共和國仲裁法》) ("**Arbitration Law**") was promulgated by the Standing Committee on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association (中國仲裁協會) of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law.

Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people's court. Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, absences of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee. A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognized as such for the purposes of the PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award ("**New York Convention**") adopted on 10 June 1958 pursuant to a resolution of the Standing Committee

passed on 2 December 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee at the time of the accession of the PRC that (1) the PRC would only recognize and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

4. FOREIGN EXCHANGE CONTROL

Prior to 31 December 1993, enterprises in the PRC requiring foreign currency were required to obtain approval from the State Planning Committee and the China Ministry of Foreign Trade and Economic Cooperation before it could convert Renminbi into foreign currency, and such conversion had to be effected at the official rate prescribed by SAFE. Renminbi reserved by foreign investment enterprises could also be converted into foreign currency at swap centers with the prior examination and verification by SAFE. The exchange rates used by swap centers were largely determined by the supply of and demand for foreign currencies and Renminbi.

On 28 December 1993, the PBOC announced that the dual exchange rate system for Renminbi against foreign currencies would be abolished with effect from 1 January 1994 and be replaced by the unified exchange rate system. Under the new system, the PBOC publishes the Renminbi exchange rate against the US dollar daily. The daily exchange rate is set by reference to the Renminbi/US dollar trading price on the previous day on the "inter-bank foreign exchange market".

On 1 April 1996, the "Foreign Exchange Control Regulations of the PRC" (《中華人民共和國外匯管理條例》) by the State Council (as amended on 14 January 1997 and 1 August 2008) came into effect. On 20 June 1996, the PBOC issued the "Announcement on the Implementation of Sale and Purchase of Foreign Exchange for the Foreign Investment Enterprises" (《中國人民銀行關於對外商投資企業實行銀行結售匯的公告》) which allows foreign-invested enterprises ("**FIEs**") to settle their foreign exchange related transactions at designated banks or at swap centers from 1 July 1996. (This Announcement was abolished on 1 December 2002 by the "Interim Measures for the Administration of Foreign Exchange Settlement and Sales Operations by Designed Foreign Exchange Banks" (《外匯指定銀行辦理結匯、售匯業務管理暫行辦法》)). On 20 June 1996, the "Regulations on Settlement and Sales of and Payment in Foreign Exchange" (《結匯、售匯及付匯管理規定》) were promulgated by the PBOC and came into effect on 1 July 1996.

On 25 October 1998, the PBOC and SAFE issued the "Joint Announcement on Abolishment of Foreign Exchange Swap Business" (《中國人民銀行、國家外匯管理局關於停辦外匯調劑業務的通知》) which stated that from 1 December 1998, foreign exchange

transactions for FIEs may only be conducted at designated banks. In addition, some of the swap centers would be abolished, while the others which are already linked up with the China Foreign Exchange Trading Centre (the "**CFETC**") by the computerized network will be merged with the CFETC and sub-centers to the CFETC.

On 21 July 2005, the PBOC issued the public announcement regarding reforming the Renminbi exchange rate regime. With effect from 21 July 2005:

(a) The PRC will reform the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies and the Renminbi will no longer be pegged to the US dollar;

(b) The PBOC will announce the closing price of foreign currencies including but not limited to the US dollar traded against Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central price for the trading against Renminbi on the following day;

(c) The exchange rate of the US dollar against the RMB will be adjusted to 8.11 RMB per US dollar at the time of 19:00 hours of 21 July 2005, which will be made as the central price for the trading against the RMB on the following working day. The foreign exchange designated banks may since then adjust quotations of foreign currencies to their customers;

(d) The daily trading price of the US dollar against the RMB in the inter-bank foreign exchange market will continue to be allowed to float within a band of ±0.3% around the central parity published by the PBOC, while the trading prices of the non-US$ currencies against the RMB will be allowed to move within a certain band announced by the PBOC.

In the future, the PBOC will make adjustment of the RMB exchange rate band when necessary according to market development as well as the economic and financial situation.

The Foreign Exchange Control Regulations of China was amended on 1 August 2008. Pursuant to this amendment, (1) the compulsory requirements for PRC enterprises to transfer their foreign exchange income back into PRC territory is abolished; (2) control and inspection over cross-border capital flow are further strengthened; and (3) the foreign exchange approval over direct investment overseas is simplified.

In summary, the present position under PRC laws relating to foreign exchange control, taking into account the promulgation of the recent new regulations and the extent the

existing provisions stipulated in previous regulations do not contradict these new regulations, are as follows:

(a) The previous dual exchange rate system for RMB was abolished and a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies was introduced. The PBOC will announce the closing price of foreign currencies including but not limited to the US dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for the trading against the RMB on the following working day.

(b) Foreign exchange receipts and payments shall be based on true and lawful transactions. PRC enterprises may retain or sell their foreign exchange earnings to financial institutions which are allowed to conduct foreign exchange businesses and use their own retained foreign exchange or purchase foreign exchange at financial institutions which are allowed to conduct foreign exchange businesses for current account transactions.

(c) Capital foreign exchange receipts of PRC enterprises, upon SAFE approval (unless no approvals required), may be retained or sold to financial institutions which are allowed to conduct foreign exchange businesses. PRC enterprises may use their retained foreign exchange or purchase foreign exchange at financial institutions which are allowed to conduct foreign exchange businesses for capital account transactions.

(d) Despite the relaxation of foreign exchange control over current account transactions, the approval of SAFE is still required before an enterprise may receive a foreign currency loan, provide a foreign exchange guarantee, make an investment outside the PRC or enter into any other capital account transaction that involves the purchase of foreign exchange.

(e) FIEs which require foreign exchange for their ordinary trading activities such as trade services and payment of interest on foreign debts may purchase foreign exchange from designated foreign exchange banks if the application is supported by proper payment notices or supporting documents.

(f) FIEs may require foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as distributing profits to their foreign investors. They can withdraw funds in their foreign exchange bank accounts kept with designated foreign exchange banks, subject to the due payment of tax on such dividends. Where the amount of the funds in foreign exchange is insufficient, the enterprise may, upon the presentation of the resolutions of the directors on the profit distribution plan of the particular enterprise, purchase foreign exchange from designated exchange banks.

(g) FIEs may apply to designated foreign exchange banks to remit the profits out of the PRC to the foreign parties to equity or cooperative joint ventures or the foreign investors in wholly foreign-owned enterprises if the requirements provided by PRC laws, rules and regulations are met.

The "Notice of SAFE on Issues Relating to Foreign Exchange Control on Fund Raising by Domestic Residents Through Offshore Special Purpose Vehicles and Round-trip Investment" (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the "**Circular No. 75**") issued by SAFE, requires PRC residents to register with the local SAFE branch before establishing or controlling any company outside of PRC for the purpose of capital financing with assets or equities of PRC companies, referred to in the Circular No. 75 as offshore special purpose companies. Further, the PRC residents are required to file amendments to their registrations with the local SAFE branch if their offshore special purpose companies undergo a material event involving changes in capital, such as changes in share capital, mergers and division, share transfers or exchanges, long-term or debt investments, etc.

As advised by our PRC legal advisers, Mr. LIU Dong, being the Controlling Shareholder, has duly registered with the Local branch of SAFE in accordance with Circular 75.

5. TAXATION

The applicable income tax laws, regulations, notices and decisions (collectively referred to as "**Applicable FIEs Tax Law**") related to FIEs and their investors include the following:

(a) New EIT Law;

(b) Implementing Rules of the Enterprise Income Tax Law of PRC (《中華人民共和國企業所得税法實施細則》) promulgated by the State Council on 6 December 2007 which came into effect on 1 January 2008; and

(c) Notice on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax (《國務院關於實施企業所得税過渡優惠政策的通知》) ("**Notice**") promulgated by the State Council on 26 December 2007 which came into effect on the same date.

PRC Enterprise Income Tax

(a) Taxpayer

The taxpayer of income tax of foreign invested enterprises refers to Sino-foreign equity joint ventures, Sino-foreign contractual joint ventures and foreign-capital enterprises that are established in the PRC.

(b) Tax Rate

In accordance with the New EIT Law, a unified enterprise income tax rate of 25% and unified tax deduction standards will be applied equally to both domestic-invested enterprises and foreign-invested enterprises. In accordance with the Notice, the EIT rate applicable to foreign-invested enterprises which are currently subject to a deducted rate will be gradually increased up to 25% within five years commencing from 1 January 2008.

(c) Preferential Treatment

Pursuant to the New EIT Law, the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises" (《中華人民共和國外商投資企業和外國企業所得税法》) and its Implementing Rules shall be abolished, and the rate of EIT applicable to all resident enterprises, including foreign invested enterprises and domestic companies in the PRC shall be at a uniform rate of 25% in five years. According to the New EIT Law, any enterprise established prior to the promulgation of the New EIT Law and is currently enjoying tax incentives, shall be entitled to continue to enjoy such incentives till the date of expiry. In the case of an enterprise that has been established before the New EIT Law, but has not declared its first profitable year, the term of any entitlement to tax incentives shall commence from 1 January 2008 for a transition period of five years.

According to the Notice which was promulgated and came into effect on 26 December 2007, commencing from 1 January 2008, enterprises that previously enjoy the preferential policies of low tax rates shall be gradually transited to enjoy the statutory tax rate within 5 years after the implementation of the New EIT Law. Among them, the enterprises that enjoy the EIT rate of 15% shall be subject to the EIT rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. The enterprises that previously enjoy the tax rate of 24% shall be subject to the tax rate of 25% commencing from 2008. As of 1 January 2008, enterprises that previously 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 may, after the implementation of the New EIT Law, continue to enjoy the relevant preferential treatments under the preferential measures and the time period prescribed in the former tax law, administrative regulations and relevant documents until the expiration of the said time period. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make profits, its preferential time period shall be calculated from 2008. The expression "enterprises enjoying the preferential policies" as mentioned above refers to the enterprises established and registered in the industrial and commercial administrative department and in other registration administrative departments prior to 16 March 2007.

Value Added Tax

The "Provisional Regulations of the People's Republic of China Concerning Value Added Tax" (《中華人民共和國增值税暫行條例》) promulgated by the State Council and amended on 5 November 2008 came into effect on 1 January 2009. Under these regulations and the "Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax" (《中華人民共和國增值税暫行條例實施細則》), value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

The value-added tax rates shall be as follows:

1. The tax rate for goods sold or imported by taxpayers other than the goods set forth in Items 2 and 3 below shall be 17%.

2. The tax rate for sale or import of the following goods by taxpayers shall be 13%:

   (a) grain, edible vegetable oil;

   (b) tap water, heating, air-conditioning, hot water, coal gas, liquid petroleum gas, natural gas, methane, and coal products for use by residents;

   (c) books, newspapers, magazines;

   (d) feed, chemical fertiliser, agrochemicals, agricultural machinery, agricultural film; and

   (e) other goods specified by the State Council.

3. The tax rate for goods exported by taxpayers shall be zero, except where otherwise determined by the State Council.

4. The tax rate for processing and repair and replacement services provided by taxpayers shall be 17%.

The value-added tax rates for small scale taxpayer shall be 3%.

Business Tax

With effect from 1 January 2009, businesses that provide services (including entertainment business), assign intangible assets or sell immovable property are liable to business tax at a rate ranging from 3% to 20%, of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

The formula for calculation of the amount of tax payable is set forth below:

Amount of tax payable = amount of business x tax rate

The amount of tax payable shall be calculated in RMB. Taxpayers that settle their amounts of business income in foreign exchange shall convert the amounts into RMB at the foreign exchange market rate.

PRC Customs Duties

According to the "Customs Law of the PRC" (《中華人民共和國海關法》), the consignee of the imports, the consignor of exports and the owner of the imports and the exports are the persons obligated to pay customs duties (generally speaking, exports are not subject to customs duties). The PRC Customs is the authorities in charge of the collection of customs duties.

The customs duties in the PRC mainly fall under ad valorem duties, namely the price of import/export commodities is the basis for the calculation of the duties. When calculating the customs duties, import/export commodities shall be classified under appropriate tax items in accordance with the category provisions of the Customs Import and Export Tariff and shall be subject to tax levies pursuant to relevant tax rates.

Under the laws of the PRC, raw materials, supplementary materials, parts, components, accessories and packing materials imported for processing and assembling finished products for foreign parties or for manufacturing products for export shall be exempt from import duties pursuant to the actual amount of goods processed for export; or import duties may be levied upfront on import materials and parts and subsequently refunded pursuant to the actual amount of goods processed for export.

To encourage the introduction of foreign investment, commencing from 1992, the PRC exercised exemption and reduction of customs duties on the import of machinery, equipment, parts and other materials within the total investment of foreign investment companies. But after the adjustment of policies as of 1 April 1996, such exemption and reduction has been terminated, while the foreign investment companies incorporated before then can still continue to enjoy such preferential treatment within the grace period.

As from 1 January 1998, according to the "Notice of the State Council regarding the Adjustment of Taxation Policy of Import Equipment" (《國務院關於調整進口設備税收政策的通知》), in respect of the foreign investment projects that fall under "Encouraging

Category and Restricted B Category of the Industrial Guidance Catalogue of Foreign Investment" (《外商投資產業指導目錄》鼓勵類和限制乙類) and also involve the transfer of technology, the equipment imported for its own use within the total investment can be exempt from the customs duties, except for the commodities listed in the "Catalogue of the Non-tax Exemption Import Commodity of Foreign Investment Projects" (《外商投資項目不予免税的進口商品目錄》).

Tax on Dividends from PRC Enterprise with Foreign Investment

Under the New EIT Law and its implementation rules, dividends, interests, rents and royalties payable by a foreign invested enterprise in the PRC to its foreign investor who is a non-resident enterprise, as well as gains on transfers of shares of a foreign-invested enterprise in the PRC by such a foreign investor, will be subject to a 10% withholding tax, unless such non-resident enterprise's jurisdiction of incorporation has a tax treaty with the PRC that provides for e reduced rate of withholding tax. According to the "Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation 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》) agreed between the PRC and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in the PRC to its direct holding company in Hong Kong will be subject to withholding tax at a rate of not more than 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise), in addition, the Applicable FIEs Tax Law also provides that dividends received by a qualified PRC resident enterprise from another qualified PRC resident enterprise are exempted from withholding tax.

6. NEW M&A REGULATIONS AND OVERSEAS LISTINGS

On August 8, 2006, six PRC governmental and regulatory agencies, including MOFCOM and the CSRC, promulgated the Circular 10, which became effective on 8 September 2006 and was revised and reissued by MOFCOM in June 2009. Under the Circular 10, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic company thereby converting it into a foreign-invested enterprise; (ii) a foreign investor establishes a foreign-invested which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. The acquisition should be based on appraisal result on the equity or assets to be acquired. According to Article 11 of the Circular 10, it is required that a PRC company, enterprise or individual who intends to take over its domestic affiliated company through a foreign company, which such company or individual establishes or controls, must obtain approval of MOFCOM. Avoiding this requirement by making investment through a PRC subsidiary of the foreign company or by other measures is not allowed. Article 40 of the Circular 10 requires an offshore special purpose vehicle formed for the purpose of an offshore listing and controlled

directly or indirectly by the PRC companies or individuals, to obtain CSRC approval prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange.

Yinshilai Textile was established on 1 December 1999 as a sino-foreign enterprise, which owned necessary assets to conduct its approved business, and Yinshilai Textile was changed to a wholly foreign owned enterprise on 16 April 2010. According to the agreement entered into between Yinshilai Textile and Yinlong Industrial for Yinlong Assets Acquisition dated 1 April 2011, Yinshilai Textile acquired from Yinlong Industrial approximately 90,000 spindles and other spinning machineries and supporting equipment (the "**Acquired Assets**") on 31 December 2010, and such acquisition was completed on the same date. As advised by our Group's PRC legal advisers, on the basis that (i) Yinshilai Textile has been established as a foreign invested enterprise and in operation through its own assets before the occurrence of Yinlong Assets Acquisition; and (ii) the Acquired Assets did not constitute material assets compared to the total assets of Yinshilai Textile as at 31 December 2010, Circular 10 does not apply in Yinlong Assets Acquisition.

As further advised by our PRC legal adviser, the Circular 10 does not apply to our corporate restructuring and the Reorganization because our PRC subsidiaries, Yinshilai Textile and Huiyin Textile, were not domestic companies defined under the Circular 10 and were established as sino-foreign joint ventures before 8 September 2006.

7. WHOLLY FOREIGN-OWNED ENTERPRISE ("WFOE")

A WFOE is governed by the "Law of the People's Republic of China on Wholly Foreign-owned Enterprises" (《中華人民共和國外資企業法》), which was promulgated on 12 April 1986 and revised on 31 October 2000, and its Implementation Regulations promulgated on 12 December 1990 and revised on 12 April 2001 ("**WFOE Law**").

(1) Procedures for establishment of a WFOE

The establishment of a WFOE must be approved by the MOFCOM and its various branches. If two or more foreign investors jointly apply for the establishment of a WFOE, a copy of the contract between the parties must also be submitted to the MOFCOM (or its delegated authorities) for its record. A WFOE must also obtain a business licence from the relevant local Administration for Industry and Commerce before it can commence business operation.

(2) Nature of WFOE

A WFOE is a limited liability company under the WFOE Law. A WFOE is a legal person who is entitled to independently assume civil obligations, enjoy civil rights and own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital it subscribed to contribute. A foreign investor is permitted

to make its contributions by instalments and the registered capital shall be contributed within the required time period as approved by the MOFCOM (or its delegated authorities) in accordance with relevant PRC laws and regulations.

(3) Profit distribution

The WFOE Law provides that a WFOE shall withdraw reserve fund and employee bonus and benefit fund from the after-tax profit. The allocation ratio for the employee bonus and welfare fund shall be determined by the enterprise. However, at least 10% of the after-tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50% of the enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

8. LABOUR LAWS AND SAFETY MATTERS

Relevant labour and safety laws and regulations in the PRC include the "PRC Labour Law" (《中華人民共和國勞動法》), the "PRC Labour Contract Law" (《中華人民共和國勞動合同法》), the "Decision of the State Council on Establishing the Unified Basic Pension Insurance System for the Employees of Enterprises" (《國務院關於建立統一的企業職工基本養老保險制度的決定》), the "Decision of the State Council on Establishing the Basic Medical Insurance System for the Urban Employees" (《國務院關於建立城鎮職工基本醫療保險制度的決定》), the "Regulation on Work-related Injury Insurance" (《工傷保險條例》), the "Regulation on Unemployment Insurance" (《失業保險條例》), the "Provisional Insurance Measures for Maternity of Employees" (《企業職工生育保險試行辦法》), the "Interim Provisions on Registration of Social Insurances" (《社會保險登記管理暫行辦法》), the "Interim Regulation on the Collection and Payment of Social Insurances Premiums" (《社會保險費徵繳暫行條例》), the "Social Insurances Law of PRC" (《中華人民共和國社會保險法》), "Rules on Implementation of Social Insurances Law of PRC" (《實施〈中華人民共和國社會保險法〉若干規定》) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time are applicable to our operations in the PRC.

According to the "PRC Labour Law" (《中華人民共和國勞動法》) and the "PRC Labour Contract Law" (《中華人民共和國勞動合同法》), labour contracts in written form shall be executed to establish labour relationships between employees and employers. The employers must provide wages which are no lower than local minimum wage standards to the employees from time to time. The employers are required to establish a system for labour safety and sanitation, strictly abide by State rules and standards and provide relevant education to the employees. The employers are also required to provide the employees with labour safety and sanitation conditions meeting State rules and standards and carry out regular health examinations of the employees engaged in hazardous occupations.

As required under the Decision of the State Council on Establishing the Unified Basic Pension Insurance System for the Employees of Enterprises, the Decision of the State Council on Establishing the Basic Medical Insurance System for the Urban Employees, the Regulation on Work-related Injury Insurance, the Provisional Insurance Measures for Maternity of Employees, the Interim Regulation on the Collection and Payment of Social Insurances Premiums and the Interim Provisions on Registration of social insurances, the employers are obliged to provide the employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

The "PRC Production Safety Law" (《中華人民共和國安全生產法》) requires that the employers maintain safe production conditions as required by the PRC Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. It further provides that any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities, and that companies must provide production safety education and training programs to employees. The design, manufacture, installation, use, checking and maintenance of the safety equipment are required to conform to applicable national or industrial standards. In addition, it is required that labour protection equipment must meet the national or industrial standards and that companies must supervise and educate their employees to wear or use such equipment according to the prescribed rules.

Social Insurances and Housing Fund

Pursuant to the relevant rules and regulations under the PRC law, enterprises and employees both are required to make contribution payment to provide employees for pension insurance, medical insurance, unemployment insurance and housing fund at respective rate. At the same time, enterprises shall make contribution to provide employees with coverage for work-related injury insurance and maternity insurance. As the economics and social development levels vary in different part of the PRC, the implementation of laws and regulations of relevant social insurances and housing fund vary among each local government.

As at 31 December 2011, the Company had a total of 2,141 full-time staff. The Company have entered into labour contracts with 573 out of our 2,141 full-time staff members while the remaining 1,568 employees were dispatched from Zibo Kangye pursuant to the relevant labour sourcing agreements with Zibo Kangye.

According to the labour sourcing agreements entered into by each of Yinshilai Textile and Huiyin Textile with Zibo Kangye, we shall make contribution for work-related injury insurance for those outsourced employees, while the other social insurances (including the pension insurance, medical insurance, unemployment insurance and maternity insurance) and the housing fund shall be contributed by Zibo Kangye which will be reimbursed by us in relation to the employees they respectively dispatched to us.

Yinshilai Textile and Huiyin Textile should make contribution to all social insurance payments (including pension insurance, medical insurance, unemployment insurance, maternity insurance and work-related injury insurance) and housing fund for the employees that have labour contract with them, which amounted to 573 staff as at 31 December 2011 and make contribution to work-related injury insurance for the 1,568 staff dispatched by Zibo Kangye.

Yinshilai Textile and Huiyin Textile has not made social insurances contribution, including work-related injury insurance contribution, and housing fund contribution in full for the employees who have entered into the labour contract with the Company in the track record period and the workforce it sourced from Zibo Kangye as and/or when required. As at 31 December 2011, the outstanding amount for social insurances contribution, including work-related injury insurance contribution, for the employees who entered into labour contracts with the Company as well as the workforce sourced from local labour stations was RMB9,631,518.94. The outstanding amount for housing fund contribution for the employees who entered into labour contracts with the Company was RMB2,407,062.5.

According to "Interim Regulation on the Collection and Payment of Social Insurances Premiums" promulgated by the State Council on 22 January 1999, enterprises should make social insurances registration with relevant local authorities. Enterprises which have not paid the social insurances contributions or have not contributed to social insurances payments on behalf of employees according to the rules will be required to pay such amounts by the relevant labour insurance administrative departments or tax authorities within required period. If the payment is not made within the required period, in addition to payment of the outstanding amount, a late charge calculated at 0.2% per day of the outstanding amount will be charged from the date of the default payment. For those enterprises which fail to make payment of any social insurances contributions and (or) any late charges, the relevant government agencies will apply to the People's Court to make a collection enforceable by law.

According to "Social Insurances Law of PRC" promulgated by the Standing Committee on 28 October 2010, the administrative department of social insurances under the State Council shall be responsible for the administration of the national social insurances, and other relevant departments under the State Council shall be responsible for social insurances within their respective competence. Administrative departments of social insurances of people's governments at or above the county level shall be responsible for the administration of social insurances within their jurisdiction, and other relevant departments of social insurances of people's governments at or above the county level shall be responsible for social insurances within their respective competence. Employees shall participate in basic pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance schemes.

The social insurances agency shall collect social insurances premiums in full and on time in accordance with the aforesaid law, and regularly report the relevant details with respect to the same to employers and individuals.

According to "Administrative Requirements for Housing Fund" (《住房公積金管理條例》) promulgated by the State Council on 3 April 1999 (amended on 24 March 2002), enterprises should register with the Housing Fund Management Centre (住房公積金管理中心) and open a housing fund account. The housing fund contributed by enterprises and employees shall not be less than 5% of the average monthly wages of the previous year. Enterprises which do not make requisite registration or complete procedures to open relevant accounts to make housing fund contributions for their employees will be ordered by the Housing Fund Management Centre to make such payment or complete such procedures within a required period, or be subject to a penalty of no less than RMB10,000 and no more than RMB50,000. Enterprises which have not paid or fully paid the housing fund will be ordered by the Housing Fund Management Centre to made such payment within a required period or potentially be subject to the People's Court's possible ruling to enforce such payment obligation.

Yinshilai Textile and Huiyin Textile obtained confirmation letters issued by Boshan Human Resources and Social Security Bureau of Zibo (淄博市博山區人力資源和安全保障局) ("**Boshan Social Insurances Bureau**") on 10 August 2011 and 13 June 2012 separately, which confirmed that Yinshilai Textile and Huiyin Textile (i) would not be requested to make the outstanding contributions; (ii) would not be subject to any penalties; and (iii) had complied with the relevant social insurances laws and regulations since April 2011.

Save for disclosed above and in the prospectus, Yinshilai Textile and Huiyin Textile comply with all relevant laws and regulations related to social insurances and housing fund payment. As at the Latest Practicable Date, Yinshilai Textile and Huiyin Textile have not received any complaints or requests from its employees requiring payment for the social insurances and housing fund, and have not received any relevant legal documents issued by any organization handling employment disputes or any court in respect of disputes related to the social insurances and housing fund payments.

9. ENVIRONMENTAL PROTECTION REGULATIONS

In accordance with the "Environmental Protection Law of the PRC" (《中華人民共和國環境保護法》) adopted by the Standing Committee on 26 December 1989, the Administration Supervisory Department of Environmental Protection sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or an enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit. If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalized.

Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalized or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate for any losses or damages suffered as a result of such environmental pollution.

Under the "Prevention and Control of Water Pollution Law of the PRC" (《中華人民共和國水污染防治法》), companies which discharge pollutants directly or indirectly into bodies of water must register with the environmental protection department of the local government at county level or above in the area where they are situated. Such companies must provide information on their facilities which discharge such pollutants, their treatment plants, the type, amount and concentration of the pollutants discharged under normal business operations, in accordance with regulations set by the Administration Supervisory Department of Environmental Protection. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately.

The dismantling or non-usage of pollution treatment plants also require the approval of the environmental protection department of the local government at county level or above.

Under the "Prevention and Control of Atmospheric Pollution Law of the PRC" (《中華人民共和國大氣污染防治法》), companies which discharge pollutants into the atmosphere must provide details of the discharge to the environmental protection department of the local government. Such details must include the facilities which discharge such pollutants,

their treatment plants, the type, amount and concentration of the pollutants discharged under normal business operations, in accordance with regulations made by the Administration Supervisory Department of Environmental Protection. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment plants also requires the approval of the environmental protection department of the local government.

Under the "Prevention and Control of Solid Waste Pollution Law of the PRC" (《中華人民共和國固體廢物污染環境防治法》), companies which discharge solid waste pollution shall be responsible for their pollution. Companies must register with the local relevant authority for their solid waste pollution, and must provide information in relation to the type, amount, discharge and treatment of such pollution, in accordance with regulations made by the Administration Supervisory Department of Environmental Protection. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment plants also requires the approval of the environmental protection department of the local government.

10. LAWS, REGULATIONS AND POLICIES RELATED TO THE TEXTILE INDUSTRY

There are currently no specific laws or regulations governing the production and distribution of textile industry in the PRC. Foreign-invested enterprises engaging in such businesses are subject to the requirements prescribed in various legislations applicable to textile products.

According to the "Catalogue of Industries for Guiding Foreign Investment" (Revised in 2011) (《外商投資產業指導目錄》) (2011年修訂) issued by MOFCOM and NDRC on 24 December 2011, which will become effective on 30 January 2012, the production of textile products does not belong to "Prohibited" or "Restricted" categories.

On 19 November 2008, the PRC government declared 6 measures below to promote the healthy development of light textile industry:

(a) Fiscal subsidies to stimulate domestic consumption

The PRC government will introduce fiscal subsidies with the key objective to stimulate domestic consumption and promote production in the PRC for domestic consumption. These include offering fiscal subsidies to peasants for buying domestic appliances, and increasing financial support to the quake-stricken areas and frontier ethic minority regions.

(b) Setting aside special funds to support small and medium textile enterprises

The PRC government will set aside special funds to support small and medium textile enterprises with the key objective of creating job opportunities, economic and social efficiency and also to attract more investment in the light textile industry.

(c) Reducing tax burden and increasing export tax rebate

The PRC government plans to reduce the tax burden on small and medium textile enterprises so as to ease cost pressure. It will also continue to increase export tax rebate on textiles, clothing and light industrial products.

The export tax rebate for certain textile products, garments and home furnishing products such as curtains and bed linens has been increased from 11% to 13% commencing from 1 August 2008, then to 14% with effect from 1 November 2008, then to 15% with effect from 1 February 2009, and is 16% since 1 April 2009 up to now.

(d) Strong support for enterprises to develop international markets and trade development fund to support merger and acquisitions, research and development and marketing activities

To strengthen the light textile industry, the PRC government has expressed strong support for small and medium enterprises in the light textile industry to develop international markets. Further, a trade development fund will be set up to support merger and acquisition, research and development and marketing activities in the industry.

(e) Encouraging bank support

The PRC government encourages and will guide financial institutions to enhance the financial support for small and medium enterprises in the PRC. This will include measures such as advocating financial institutions to provide more lending and simplify approval process, and developing the export credit insurance business to small and medium textile enterprises.

(f) Funds set aside to promote technological transformation

The PRC government will emphasize on the technological transformation of light textile industry and promote industrial upgrading. Small and medium textile enterprises are encouraged to strengthen their research and development capability and improve market competitiveness. A central budget fund will be set aside for this purpose.

According to the "Guiding Catalog for Adjustment in the Structure of Industries" (2011 version) (《產業結構調整指導目錄(2011年本)》), recently promulgated by the NDRC, our production facilities do not fall within the "Prohibited" or "Restricted" category of the catalog.

11. SUMMARY OF RELEVANT LAWS AND REGULATIONS ON IMPORTS OF COTTON AND EXPORTS OF TEXTILE PRODUCTS

(1) Relevant Regulations on Imports of Cotton

According to the "Regulation of the People's Republic of China on the Administration of Import and Export of Goods" (《中華人民共和國貨物進出口管理條例》) promulgated by the State Council of the People's Republic of China ("**State Council**") on 10 December 2001, enterprise that import goods which are subject to tariff and quotas should apply for quotas with relevant administrative department to obtain certificates for tariff and quotas.

In order to fulfil the commitments to reduce tariff made by the PRC when entering into the World Trade Organization and "Bangkok Agreement" (《曼谷協定》), on 21 December 2001, the Customs Tariff Commission of the State Council ("**Customs Tariff Commission**") issued the "Notice of the Customs Tariff Commission of the State Council on the Implementation of the Customs Tariff of 2002" (《國務院關稅稅則委員會關於2002年關稅實施方案的通知》), pursuant to the said notice, starting from 1 January 2002, imported cotton will subject to tariff quotas management, and corresponding in-quota rates and out-of-quota rates were also came into effect. Imported cotton within tariff quotas were subject to applicable 1% tax rate, while the imported cotton not that out of the tariff quotas were subject to applicable 54.4% Most Favoured Nation rate and 125% general tax rate.

According to the "Interim Measures for the Administration of Import Tariff Quotas of Agricultural Products" (《農產品進口關稅配額管理暫行辦法》) ("**Interim Measures**") promulgated by MOFCOM and NDRC on 27 September 2003, cotton is one of the agricultural products that subject to import tariff quota. Except for foreign products that went to bonded warehouses, bonded areas and export processing zones can be waived to obtain the "Certificates of Import Tariff Quotas for Agricultural Products" (《農產品進口關稅配額證》), enterprises that import cotton for normal trade, process trade, barter trade, small scale border trade, subsidy, donation, etc. should apply for import tariff quotas for agricultural products with the organizations authorised by NDRC and obtain the Certificates of Import Tariff Quotas for Agricultural Products (effective for one calendar year).

Pursuant to the above interim measures, the organizations authorised by NDRC will allocate the import tariff quotas of agricultural products according to the application amounts and the historical import record, productivity, other related business standard of the applicants or using the first-come-first-serve method.

If end-users holding the import tariff quotas for agricultural products could not fully use up the quotas they applied in that year, they should return the unused quotas to the original issue organizations. The Interim Measures have been declared invalid on 30 June 2011 by NDRC.

On 26 April 2005, the Customs Tariff Commission issued "Notice on the problem using limited interim tariffs to import cotton that exceeds tariff quotas 2005" (《關於2005年在關税配額外以有數量限制的暫定關税方式進口棉花問題的通知》). According to the notice, from 1 May 2005 to 31 December 2005, imported cotton which declared as out-of tariff quota will subject to import tariff based on the "limited interim tariff rate" (有數量限制的暫定關税税率), the interim tariff rate will be determined using sliding duties method, the tax rate slid range from 5% to 40%.

The Group strictly complied with the relevant requirement when importing cotton, and has obtained the "Certificates of Import Tariff Quotas for Agricultural Products" and the "Certificates of importing cotton with preferential out-of quota rate" (《關税配額外優惠税率進口棉花配額證》).

(2) Relevant Regulations on Exports of Textile Products

According to the "Regulations of the People's Republic of China on the Administration of Import and Export of Goods" (《中華人民共和國貨物進出口管理條例》) promulgated by the State Council on 10 December 2001, export quotas and export licences system had been implemented on goods that subject to export control. While exporting restricted export goods that subject to export quotas and export licences, exporters should apply for quota certificates and export licences.

According to the "Measures on the Administration of Passive Quotas for Textile Products" (紡織品被動配額管理辦法) ("**Measures**") promulgated by the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China on 20 December 2001, export quotas and export licences system were implemented on textile products that export to countries which has imposed restrictions, such as the European Union and the United States. The systems are subject to the supervision of the Customs and under the examination of the entry-exit inspection and quarantine authorities according to relevant requirements. Exporting companies may acquire the export quotas through various means such as tendering, self-applications and allocation by performance. Exporting companies should return any unused export quotas to the original issue authority. Quotas acquired through tendering, self-applications and allocation by performance may be transferred in accordance with the above Measures and relevant provisions.

According to the 2004 Announcement No. 82 of the Ministry of Commerce and General Administration of Customs, under the relevant provisions stipulated in the "Agreement on textile products and clothing" (《紡織品與服裝協議》) of the World Trade Organization in respect of the integration of textile products quotas and China's

World Trade Organization Accession Protocol (《中國加入世界貿易組織議定書》), countries previously imposing restrictions on textiles export from China, such as the European Union and the United States, had lifted the export quota imposed on China since 1 January 2005.

On 18 September 2006, the Ministry of Commerce promulgated the "Measures for the Administration of the Export of Textiles (Provisional)" (紡織品出口管理辦法(暫行)) ("**Provisional Measures**"). According to the Provisional Measures, interim export control had been implemented on textiles products listed in the "Catalogue of Textile Exports Subject to Provisional Administration" (《紡織品出口臨時管理商品目錄》) ("**Exports Catalogue**"). While exporting textile products listed in the Exports Catalogue, foreign trade companies should apply to the local commerce authorities for a "Provisional Export Licence for Textile Products". As for commodities that subject to the provisional export licence administration, foreign trade companies should apply to the organizations authorised by the General Administration of Quality Supervision, Inspection and Quarantine ("**General Administration of Quality Supervision**") for the certificate of country of origin for the products after acquiring the "Provisional Export Licence for Textiles Products" (紡織品臨時出口許可證).

Provisional export quotas on textile products is assigned to foreign trade companies by commerce authorities through various means such as allocation by performance and tendering agreement. Provisional export quotas for textile products are allowed to transfer through the transfer platform of provisional export quotas. Should the provisional export quotas were not fully used up within the valid period of the provisional export quota, foreign trade companies should return the remaining provisional quotas to the commerce authorities.

On 14 December 2006, the Ministry of Commerce, General Administration of Customs and General Administration of Quality Supervision issued the 2006 Announcement No. 106, announcing a new "Catalogue of Textile Exports to the United States Subject to Provisional Administration" (《輸美紡織品出口臨時管理商品目錄》) and "Catalogue of Textile Exports to the European Union Subject to Provisional Administration" (《輸歐盟紡織品出口臨時管理商品目錄》) to replace the above Export Catalogue.

The United States and the European Union imposed import restrictions on textiles from China to reduce the impact of an influx of Chinese textiles imports according to the relevant provisions of the special safeguards on importing textiles from China stipulated under the paragraph 242 of the Report of the Working Party on the Accession of China to the WTO (《中國加入世貿組織工作組報告書》). To settle the trade disputes with both the United States and European Union, the PRC government entered into memoranda of understanding with the United States and European Union

respectively in 2005 which prescribed annual quotas and caps on annual increases of quotas on 21 categories and 10 categories of Chinese textiles imports into the United States and European Union.

According to the memoranda of understanding entered into between the European Union and China, management over the export quantity of 10 categories of textile products exported to European Union will be lifted as from 1 January 2008 and export licence management over 8 categories of textile products exported to European Union members shall be carried out as from 1 January 2008, and shall be ended as from 31 December 2008.

On 31 December 2008, the memoranda of understanding entered into between the European Union and China, and the United States and China expired. Since 1 January 2009, the Ministry of Commerce no longer imposed administration on the export amount and quota licence on the 21 categories of textile products exported to the United State and the 8 categories of textile products under bilateral control exported to the European Union.