PRC REGULATORY OVERVIEW

We are principally engaged in the research and development, manufacture and sale of industrial automation systems and sludge treatment products by our Company's subsidiary in the PRC. This section sets out summaries of certain aspects of the laws, rules, regulations, government and industry policies and requirements, which are relevant to our Group's operations and business in the PRC.

1. FOREIGN [●]

The major Chinese government policy concerning foreign [●] in the PRC is outlined in *the Guidance Catalogue of Industries for Foreign Investment* (《外商投資產業指導目錄》) (the "Catalogue") (Amended in 2011) jointly issued by NDRC and MOFCOM on 24 December 2011 and became effective on 30 January 2012, which classifies [●] projects into encouraged, permitted, restricted and prohibited categories. Foreign-invested enterprises in encouraged industries are often permitted to establish wholly foreign-owned enterprises. Parts of industries in the restricted category may be limited to equity or contractual joint ventures, in some cases with the Chinese partner as the majority shareholder. Restricted-category projects are also subject to higher-level government approvals. Industries in the prohibited section are closed to foreign [●]. Industries for foreign [●] that do not fall within the categories of encouraged, restricted or prohibited industries are permitted industries for foreign [●]. Permitted industries for foreign [●] are not listed in the Catalogue. According to the latest Catalogue, development and manufacture of industry automation products falls into the scope of permitted categories, and development and manufacture of sewage sludge dryer falls into the scope of encouraged categories.

Foreign [●] enterprises ("FIEs") can take many forms such as WFOE, EJV, co-operative joint venture or foreign invested partnership enterprise. WFOEs are governed by *the Wholly Foreign-owned Enterprise Law of the PRC* (《中華人民共和國外資企業法》), which was promulgated on 12 April 1986 and amended on 31 October 2000, and *the Implementation Regulation of the Wholly Foreign-owned Enterprise Law* (《中華人民共和國外資企業法實施細則》), which was promulgated on 12 December 1990 and amended on 12 April 2001 (together the "Foreign Enterprises Law").

WFOEs are also governed by the *Company Law of the PRC* (《中華人民共和國公司法》) (the "Company Law"), which was promulgated in 29 December 1993 and amended in 25 December 1999, 28 August 2004 and 27 October 2005. The most recent amendment came into effect on 1 January 2006. Based on the rule that special laws prevail over common laws, if there is any conflict, the Foreign Enterprises Laws will prevail.

The establishment of a WFOE will have to be approved by the MOFCOM (or its delegated authorities). After obtaining approval from the MOFCOM, a WFOE must also obtain a business license from the SAIC (or its delegated authorities) before it can commence business.

The Company Law provides that after payment of taxes, any PRC company including a WFOE must make contributions to a statutory reserve fund on a rate of 10% of the after tax profits. If the cumulative total of allocated statutory reserve funds reaches 50% of a company's registered capital, the company will not be required to make any additional contribution. The statutory reserve fund may be used by a company to make up its losses, where the statutory reserve fund is not sufficient to cover the company's loss from the previous year; the current year profit shall be used to cover such loss before allocation is made to the statutory reserve fund.

Any PRC company including a WFOE is prohibited from distributing dividends before making up the losses (if any) of previous years and allocating the statutory reserve fund, otherwise, the shareholder(s) of the company shall return the profit so distributed to the company.

2. MERGERS AND ACQUISITIONS OF DOMESTIC ENTERPRISES

On 8 August 2006, the MOFCOM, the SAFE and other four ministries jointly adopted the *Regulations for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (《關於外國投資並購境內企業的規定》) (the "M&A Rules"), which came into effect on 8 September 2006 and amended on 22 June 2009.

Under the M&A Rules, mergers and acquisitions of domestic enterprises by foreign [●]" refers to (a) a foreign [●] purchases the stock right of a shareholder of a non-foreign-invested enterprise in the PRC (domestic company or capital increase of a domestic company so as to convert and re-establish a domestic company as a foreign-invested enterprise (equity merger and acquisition); or (b) a foreign [●] establishes a foreign-invested enterprise and purchases and operates the assets of a domestic enterprise by the agreement of that enterprise; or (c) a foreign [●] purchases the assets of a domestic enterprise by agreement and uses this asset [●] to establish a foreign-invested enterprise and operate the assets.

Mergers and acquisitions of domestic enterprises by foreign [●] shall subject to the approval of the MOFCOM or provincial commercial authority. In the event any domestic company, enterprises or natural person merge or acquire a domestic company which has affiliated relationship with them through a overseas company legally established or controlled by such company, enterprise or natural person, the mergers and acquisitions application shall be submitted to the MOFCOM for approval and no means including domestic re-investment of a FIE shall be adopted to circumvent the foregoing requirements.

The M&A Rules also provide that an offshore special purpose vehicle established for [●] purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the [●] prior to the [●]. On 22 June 2009, the MOFCOM issued the *Amendments to Regulations for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (《關於修改<關於外國投資並購境內企業的規定>的決定》), revising the provisions on the anti-monopoly review for mergers and acquisitions of domestic enterprises by foreign [●].

3. ENVIRONMENTAL PROTECTION

The MEP is responsible for, among other things, (i) the supervision of the PRC environmental affairs; (ii) maintaining environmental quality and controlling the discharge of pollutants; and (iii) the supervision of the environmental governance system. Environmental protection bureaus at county level or above are responsible for environmental protection within their jurisdictions.

Pursuant to the *Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) (the "Environmental Law"), which became effective on 26 December 1989, entities with production facilities that may cause pollution or produce toxic materials are required to take measures to protect the environment and to establish environmental governance system. This includes adopting measures to effectively prevent and control exhaust gas, sewage, waste residues, dust or other waste materials. Entities are required to register with the relevant environmental protection authorities with respect to their discharged pollutants.

Pursuant to the Environmental Law and the *Administrative Regulations on Environmental Protection for Construction Project* (《建設項目環境保護管理條例》), which became effective on 29 November 1998, if the construction of new facilities or expansion and alteration of the existing facilities may have material impact on the environment, a report on the impact shall be submitted to the relevant environmental protection authority. The new facilities to be built have to fulfill all relevant environmental protection standards before commencement of operation.

The MEP is responsible for, among other things, formulating the standards on pollutants emission in accordance with the national environmental standards, economic and technological conditions. For items not specified in the national environmental standards, respective provincial governments, self-administrative regions and municipalities may formulate their own local standards on the pollutants emission. These local standards may be more stringent than the national standards.

Pursuant to the requirements under the amended *Law of the PRC on the Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》) which became effective on 1 June 2008, *Law of the PRC on the Prevention and Control of Air Pollution* (《中華人民共和國大氣污染防治法》) which became effective on 1 September 2000 and *Administrative Regulations on Levy and Utilization of Sewage Charge* (《排污費徵收使用管理條例》) and *Administrative Measures on Levy and Utilization of Sewage Charge* (《排污費徵收標準管理辦法》) which became effective on 1 July 2003, enterprises which discharge water or air pollutants shall pay levies depending on the type and volume of pollutants emission. The levies are calculated by local environmental protection authorities, which will monitor the level of pollutants emission. Notices on levies payable are issued after the types and volume of pollutants fees have been determined and verified.

In accordance with the *Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Wastes* (《中華人民共和國固體廢物污染環境防治法》), which became effective on 1 April 1996, entities and individuals who collect, store, transport, utilize, or dispose of solid wastes shall take precautions against the spread, loss, and leakage of such solid wastes or adopt measures to prevent such solid wastes from polluting the environment.

The penalties for any breach of the environmental protection laws vary from warnings and fines to administrative sanctions, depending on the degree of harm and damage. An entity whose construction works fail to satisfy pollution prevention requirements may be ordered to suspend its production or operation and will be fined. The responsible person of such entity may be subject to criminal liabilities for serious breaches resulting in significant harm and damage to private or public property or personal death or injury.

4. TAXATION

EIT

All enterprises in the PRC shall pay EIT on income derived from production and business operations. For period prior to 1 January 2008, the principal PRC taxation law applicable to enterprises with foreign [●] was *the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises* (the "Income Tax Law for Foreign Enterprises") (《中華人民共和國外商投資企業和外國企業所得税法》) promulgated by the NPC on 9 April 1991 effective between 1 July 1991 and 31 December 2007. Under the Income Tax Law for Foreign Enterprises and the relevant implementation rules, foreign-invested enterprises (engaging in the production of goods/services with an expected business life of over 10 years) were entitled full exemption from income tax for two years from the year of achieving profitability, and thereafter a 50% immediate refund on income tax in the following three years, that is the third to fifth year from the year of achieving profitability.

According to Tax Law, income tax rates applicable to both domestic and foreign-invested enterprises have been unified at 25% from 1 January 2008. Enterprises which have been enjoying income tax rates lower than the standard rate of 33% will have a five-year transitional period, gradually being subject to the unified tax rate of 25%. For enterprises which have been subject to income tax rate of 15% will be subject to an increasing enterprise income tax rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011, and eventually 25% in 2012. Enterprises enjoying the two-year full exemption and the three-year 50% immediate refund on income tax are allowed to continue such exemption and reduction until the exemptions expire.

VAT

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 came into effect on 1 January 1994, which was amended on 5 November 2008. Under these regulations and its Implementing Rules, VAT is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

VAT payable is charged on an aggregated basis at a rate of 13% or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided but excluding, in respect of both goods and services, any amount paid in respect of VAT included in the price or charges, and less any deductible VAT already paid by the taxpayer on purchase of goods and services in the same financial year. The VAT rate for those engaging export of goods save for otherwise provided by the State Council is zero.

Tax on dividends from PRC enterprise with foreign [●]

According to Tax Law, the dividends received by a foreign [●] of an FIE are subject to a withholding tax of up to 10%, depending on whether there is a mutual tax treaty or arrangement between PRC and the foreign country or legislative region where the foreign [●] comes from. Pursuant to the *Notice concerning Tax Rates for Dividends Declared* (《關於下發協議股息税率情況一覽表的通知》) issued by the SAT on 28 January 2008, a lower rate of 5% withholding tax is applicable to dividends payable from an FIE to its Hong Kong [●], provided that the Hong Kong [●] hold 25% or more of the entire equity interest in such FIE, and to the extent that such dividends have their source within the PRC.

Preferential tax treatment

According to Article 28 of the EIT, the applicable tax rate of enterprise income tax on high-tech enterprises supported by the PRC government can be reduced from 25% to 15%.

As our subsidiary in the PRC has been granted a certificate of high-tech enterprises with a validity period from January 2008 to December 2010 and from January 2011 to December 2013 respectively according to *Measures for the Administration of the Recognition of Hi-tech Enterprises* (《高新技術企業認定管理方法》), which was promulgated by the MST, Ministry of Finance of the PRC (中華人民共和國財政部) and SAT on 14 April 2008 and retrospectively came into force from 1 January 2008, therefore, our subsidiary in the PRC shall enjoy a preferential tax rate of 15% on enterprise income tax during the foregoing period.

5. FOREIGN EXCHANGE AND DIVIDEND DISTRIBUTION

The principal regulation governing foreign exchange in the PRC is *the Foreign Exchange Administration Rules* of the PRC (《中華人民共和國外匯管理條例》) which was issued by the State Council on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 5 August 2008. Under these rules, the current account incomes of foreign exchanges can be retained or sold to financial authorities which manage exchange settlement and sale-purchase of foreign exchange. However, approval from the SAFE is required for the relevant capital account transactions of the foreign-invested enterprises, such as the capital increase and decrease. Foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of the SAFE for trade and service related foreign exchange transactions by providing documents evidencing such transactions. In addition, foreign exchange transactions involving direct [●], loans and [●] in securities outside the PRC are subject to limitations and require approvals from the SAFE.

Pursuant to *Interim Measures of the Foreign Exchange Registration of Foreign-Invested Enterprises* (《外商投資企業外匯登記管理暫行辦法》) promulgated by the SAFE on 28 June 1996 and became effective on 1 July 1996, foreign-invested enterprises shall apply for foreign exchange registration within 30 days since the collection of the business license.

According to 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-funded Enterprises* (《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》) issued by the SAFE on 29 August 2008 and became effective on the same date, prior to applying to any bank designated by the SAFE for settlement of foreign currency capital, an FIE shall engage with an accounting firm for capital verification. The accounting firm so engaged shall issue a capital verification report to the FIE after going through the confirmation request formalities for capital verification at the SAFE or its branches. No bank shall settle any foreign currency capital for the FIE who has not completed the capital verification formalities, and the accumulative amount of capital settled by the bank for a FIE shall not exceed the accumulative amount of verified capital of the said FIE. The settled capital in RMB shall be used within the approved business scope and shall not be used for domestic equity [●] unless otherwise stipulated.

Pursuant to *Circular on Issues Concerning Outward Remittance of Profit, Stock Dividends and Stock Bonuses Processed by Designated Foreign Exchange Banks* (《關於外匯指定銀行辦理利潤、股息、紅利匯出有關問題的通知》) issued by the SAFE on 22 September 1998 and *Circular on Amending "Circular on Issues Concerning Outward Remittance of Profit, Stock Dividends and Stock Bonuses Processed by Designated Foreign Exchange Banks* (《關於修改<關於外匯指定銀行辦理利潤、股息、紅利匯出有關問題的通知>的通知》) issued by the SAFE on 14 September 1999 and became effective from 1 October 1999, foreign [●] of

foreign-invested enterprises shall remit profits, dividends or stock bonuses abroad at designated foreign exchange banks with the documents including but not limited to the following:

(1) tax payment certificate and taxation declaration form (for enterprises enjoying tax reduction or exemption, certificate of tax reduction or exemption issued by domiciled taxation administration shall be provided) indicating payment or exemption of taxes;

(2) auditing report of the current year issued by certified public accountants indicating losses (if any) of previous years have been made up;

(3) resolution of the board of directors on the distribution of profits or dividends;

(4) foreign exchange registration card (which is issued by the SAFE for companies to transact foreign exchange related affairs); and

(5) capital verification report issued by certified public accountants to verify that the FIE's registered capital has been fully paid-in.

Further, no foreign invested enterprises whose registered capital have not been fully paid up as provided under the articles of contract are allowed to remit any foreign exchange profits or stock bonuses abroad. If the delay in fully paying up the registered capital as provided under the articles of contract is caused by special reasons, such foreign invested enterprise may apply for remittance of part of the foreign exchange profits or stock bonuses computed by the proportion of paid-up capital abroad with the SAFE by submitting the approval of the former inspection and approval institutions which allow the delay in paying the registered capital.

6. EMPLOYMENT AND SOCIAL SECURITY

Employment

Labor Law of the People's Republic of China (《中華人民共和國勞動法》) promulgated by the Standing Committee on 5 July 1994 and came into force on 1 January 2005 and the Employment Contract Law promulgated by the Standing Committee on 29 June 2007 establishes the provisions of the conclusion, performance, amendment, termination or ending of employment contracts.

An employer's employment relationship with an employee is established on the date it starts using the employee. If an employer fails to conclude a written employment contract with an employee more than a month but less than a year after the date on which the employer starts using the employee, it shall pay the employee twice his or her wages each month from the second month of his or her employment term. However, the ceiling for such payment is eleven (11) months.

An employer and an employee may conclude a fixed-term employment contract or an open-ended employment contract or an employment contract to expire upon completion of a certain job in the event that both parties reach a negotiated consensus. However, an open-ended employment contract shall be concluded under certain circumstance prescribed by the Employment Contract Law. Where the employment contract is a fixed-term contract that ends due to expiration, unless the employee does not agree to renew the contract even though the conditions offered by the employer for renewal are the same as or better than those stipulated in the current employment contract, or where the employer fails to pay social insurance premiums for the employee in accordance with the law, or where any other circumstances formulated by the Employment Contracts Law occurs, the employee shall be paid severance pay based on the number of years worked with the employer at the rate of the average monthly wage for the last twelve (12) months for each full year worked.

Social security

The Chinese social security system basically comprises five major types of social insurances, namely maternity insurance, endowment insurance, medical insurance, unemployment insurance and work injury insurance, and each company in China is required to contribute social insurance covering the above for its employees.

Prior to the effectiveness of *the Law of Social Insurance of the PRC* (《中華人民共和國社會保險法》) (the "Social Security Law") on 1 July 2011, each type of social insurance is governed by particular regulations as follows:

(1) *Maternity insurance: Provisional Measures for the Maternity Insurance for Enterprise Employees* (《企業職工生育保險試行辦法》), which came into force from 1 January 1995;

(2) *Endowment Insurance Decision of the State Council on Establishing a Unified Basic Endowment Insurance System for Enterprises Employees* (《關於建立統一的企業職工養老保險的決定》), which came into force from 16 July 1997;

(3) *Medical Insurance Decision of the State Council on Establishing a Basic Medical Insurance System for Urban Employees* (《國務院關於建立城鎮職工基本醫療保險制度的決定》), which came into force 14 December 1998;

(4) *Unemployment Insurance Regulations on Unemployment Insurance* (《失業保險條例》), which came into force from 22 January 1999; and

(5) *Injury Insurance: Regulations on Work Injury Insurance* (《工傷保險條例》), which came into force from 1 January 2004 and was amended on 20 December 2010.

And there are several major regulations governing the administration of social insurance collection and payment as well as the liabilities on any non-compliance of social insurance regulations as follows:

(1) *Provisional Regulations on Collection and Payment of Social Insurance Contributions* (《社會保險費征繳暫行條例》) which came into force from 22 January 1999;

(2) *Provisional Measures for Administration of the Declaration and Payment of Social Insurance Contributions* (《社會保險費申報繳納管理暫行辦法》) which came into force from 19 March 1999; and

(3) *Auditing Measures for Social Insurance* (《社會保險稽核辦法》) which came into force from 1 April 2003.

The Social Security Law has combined the substantial contents of the above regulations into a single enactment without significantly changing the existing social security system of the PRC. Being a law formulated by Standing Committee, the Social Security Law has higher hierarchy than all of the foregoing regulations; further, it has adopted more severe measures to supervise the payment of social insurance.

Under Article 63 of the Social Security Law, in the event any company fails to fully pay up the social insurance premiums, relevant administration on social insurance premiums collection (the "Administration on Collection") shall order such company to fully pay up the outstanding social insurance premiums within a time limit; if the company fails to do so, Administration on Collection is entitled to check the deposit account with banks or other financial institutions, and inform the opening bank of the company or other financial institutions in writing to appropriate the social insurance premiums payable from the company's bank account subject to the decision of relevant administrative department on or above county level on appropriating social insurance premiums. If the balance of the company's deposit account is lower than the amount of the social insurance premiums payable, Administration on Collection is entitled to require the company to provide guarantee and enter into an agreement on late payment of social insurance premiums. In the event that the company fails to fully pay up the social insurance premiums and has not provided any guarantee, Administration on Collection is entitled to apply with the People's Court to distrain, seal up and auction the company's property amounting to the social insurance premiums payable, and the income from the auction will be appropriated by Administration on Collection to pay up the outstanding social insurance premiums.

Housing provident fund

According to the *Regulation Concerning the Administration of Housing Provident Fund* (《住房公積金管理條例》) promulgated by the State Council on 3 April 1999 and amended on 24 March 2002, any enterprise in the PRC must register with the Housing Fund Management Center of the Central Government (中央國家機關住房資金管理中心). Enterprises will then

need to open housing provident fund accounts with specified banks for their employees and contribute to the housing provident fund at a rate of not less than 5% of the employee's average monthly salary in the previous year.

7. INTELLECTUAL PROPERTIES

In China, major laws and regulations in respect of intellectual property rights include as follows:

(1) *Patent Law of the PRC* (《中華人民共和國專利法》) promulgated on 1 April 1985 and amended on 27 December 2008, and its Implementation Rules promulgated on 1 July 2001 (collectively the "Patent Law");

(2) *Copyright Law of the PRC* (《中華人民共和國著作權法》) promulgated on 1 June 1991 and amended on 26 February 2010, and its Implementation Regulations promulgated on 15 September 2002 (collectively the "Copyright Law"); and

(3) *Trademark Law of the PRC* (《中華人民共和國商標法》) which came into force from 1 March 1983 and amended on 27 October 2001 and its Implementation Regulations promulgated on 3 August 2002 (collectively the "Trademark Law").

Pursuant to the Patent Law, in the circumstance that a service invention-creation is made by an employee in execution of his/her work tasks assigned by the employer or mainly by utilizing the material conditions of the employer, the right to apply for a patent on this service invention-creation shall vest in the employer, who will be the patent right holder upon the completion of patent registration application, and "Service invention-creation made by an employee in execution of his/her work tasks assigned by the employer" refers to: (a) any service invention-creation made in the course of performing his/her own working duty; (b) any service invention-creation made in execution of any working task assigned by the employer other than his/her own working duty; (c) any service invention-creation made within one year after his/her resignation, retirement or position change that relates to his/her own work duty or any other work task assigned to him/her by his/her former employer.

Further, according to Copyright Law, any work created by a citizen in the course of fulfilling the work task assigned to him/her by a legal entity or other organization shall be deemed as "a work created in the course of employment". Save for the situations mentioned below, the copyright in such work shall be enjoyed by the author while the legal entity or other organization shall have a priority right to utilize the work within their business scopes:

(1) any drawings of engineering design and product design, maps, computer softwares and other works created in the course of employment which are made mainly based on the material conditions and technical resources of the legal entity or other organization and any liabilities involved in the foregoing works shall be borne by the legal entity and other organizations; or

(2) any works created in the course of employment where the copyright shall, in accordance with laws, administrative regulations or contracts, be enjoyed by the legal entity or other organization.

During two years after the completion of the work, the author shall not, without the consent of the legal entity or other organization, authorize any third party to utilize the work in the same way as the legal entity or other organization does.

In light of the Trademark Law, the validity period of a registered trademark is ten years commencing from the date the registration is approved. A trademark holder may apply for a renewal within six months prior to the expiry date of the trademark, failing to so within the specified time limit, an extension period of six months may be granted to the trademark holder; in the event the trademark holder fails to make the said application within the extension period, the registered trademark shall be revoked. The duration of each successful renewal is ten years.

A trademark holder may license any other party to use its registered trademark(s) by entering into a trademark licensing contract which shall be submitted to relevant trademark bureau for filing. The trademark holder shall supervise the quality of the commodities bearing its trademark(s) while the licensee shall guarantee the quality of the said commodities. The licensee shall indicate the name of the trademark holder and the place of production of the commodities.

8. PRODUCT QUALITY AND CONSUMER PROTECTION

Product quality

The principal legal provisions governing product liability are set out in *the Product Quality Law of the PRC* (《中華人民共和國產品質量法》) (the "Product Quality Law") which was promulgated by the Standing Committee on 22 February 1993 and amended on 8 July 2000.

The Product Quality Law is applicable to the production and sale of any product within the PRC, and producers and sellers shall be liable for any failure of their products to meet the quality standards in accordance with the Product Quality Law. Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer will be ordered to suspend its operations, or its business license will be revoked and criminal liability may be incurred in serious cases.

According to the Product Quality Law, consumers or other victims who suffer injury or property losses due to product defects may demand compensation from the producer as well as the seller. Where the responsibility lies with the producer, the seller shall, after settling the compensation has the right to recover such compensation from the producer and vice versa.

Consumer protection

The Law of the PRC on Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) (the "Consumer Law") was issued by the Standing Committee on 31 October 1993 and came into effect on 1 January 1994. According to the Consumer Law, the rights and interests of consumers who buy or use commodities for the purpose of consumption or those who receive services are protected, and all manufacturers and distributors are required to ensure that their products and services will not cause personal or property damage.

9. PRODUCTION SAFETY LAW

Pursuant to the PRC Production Safety Law which became effective on 1 November 2002 and as amended on 27 August 2009, 國家安全生產監督管理總局 (the State Administration of Work Safety) is responsible for the overall administration of production safety. The Safety Production Law provides that an entity engaging in manufacturing activities must meet national or industry standards regarding safety production and provide relevant working conditions as required by the laws, administrative rules and the national or industry standards. An entity engaging in manufacturing activities must install prominent warning signs at or on relevant dangerous operation sites, facilities and equipment. The design, production, installment, use, test, repair, upgrade and disposal of safety equipment must comply with national or industry standards.

As a catalogued special-purpose tobacco machinery manufacturer, our Group shall comply with relevant stipulations in the PRC Production Safety Law, provide safe production conditions according to the law, and shall provide education and training on work safety to employees.

10. BIDDING

The major laws and regulations governing bidding activities are the Bidding Law of the PRC (《中華人民共和國招標投標法》) came into force from 1 January 2000 and its Implementation Rules (《中華人民共和國招標投標法實施條例》) became effective from 1 February 2012 (collectively the "Bidding Law").

According to the Bidding Law, the following construction projects in the territory of the PRC including their survey, design, construction, supervision of the project and the procurement of the important equipment, materials relevant to the construction such projects are required to be carried on by bidding:

(a) any large-scale project of infrastructure facility or public utility involved in social public interest and the safety of the general public;

(b) any project entirely or partially using state-owned funds or loans by the state; and

(c) any project using loans of international organizations and foreign governments and aid funds.

The bidding activities under the Bidding Law are classified into public bidding and selected bidding. For public bidding, it refers to that the biddee invites unspecified legal persons or other institutions to bid through binding announcement which shall be published on newspapers, information networks or other mass media. For selected bidding, it refers to that the biddee invites specified legal persons or other institutions to bid through invitation for bids, which shall be sent to no less than three specified legal persons or other institutions that are capable of handling bidding operations and in good credit standing. Both the binding announcement and the invitation for bids shall clearly set forth the title and address of the biddee, the nature, quantity, place and time for execution of the bidding project, ways of obtaining bid-invitation documents, etc.

Bidding activities shall be carried on on an openness, fairness, justice, honesty and credit-worthiness basis. The biddee is not allowed to restrain or "squeeze out" potential bidders by imposing unreasonable conditions, and the bidding documents shall not set forth any specific producer or supplier or other contents favoring or excluding potential bidders. During the process of bidding, the biddee shall not disclose to any other person the title, quantity of the potential bidders that have obtained bid-invitation documents or any other information that may affect fair competition. Where there is a minimum bid, the biddee shall keep it confidential.

The opening of the bid shall be carried out publicly at the time of the deadline for submission of bidding documents as mentioned in the bid-invitation documents. The place for opening bids shall be the place specified in the bid-invitation documents. If there are less than three bidders, the biddee shall make a new invitation to bid in accordance with the Bidding Law. The bid opening shall be presided by the biddee with the participation of all bidders. A legally established bid evaluation committee shall be responsible for bid evaluation.

The winning candidate shall meet at least one condition as mentioned below:

(a) the bidder is able to maximally satisfy the bid evaluation criteria as specified in each clause of the bid-invitation documents; and

(b) the bidder is able to satisfy the substantial requirements, while providing the lowest bid (excluding under-cost bids).

After the determination of the bid winner, the biddee shall issue a bid winning notice to the winner, and at the same time inform all the other bidders of the result. The bid-winning notice shall have legal binding force against the biddee and bid winner. If the biddee changes the result of bid winning or the bid winner rejects the bid project after the notice has been sent out, the biddee or bidder shall be liable for this.

A written contract shall be concluded between the biddee and bid winner within 30 days after the issuance of the bid-winning notice according to the invitation to bid and bidding documents. The biddee and bid winner shall not conclude other agreements deviating from any substantial provision of the contract. Where the bid-invitation documents require the bid winner to pay a contract performance bond, the bid winner shall make such payments which shall not exceed 10% of the total contractual amount.