

## REGULATIONS

The relevant laws and regulations applicable to the operations and the business of the Group are set out below:

### (A) HONG KONG LAWS AND REGULATIONS

#### *The Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong)*

Every person, (a company or individual), carrying on a business in Hong Kong is required by the Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong) to register with the Inland Revenue Department and obtain a business registration certificate within one month of the commencement of the business. Business registration is a process based on application and does not involve government approval. Once the stated criteria are met, a business registration certificate will be granted. Business registration serves to notify the Inland Revenue Department of the establishment of a business in Hong Kong and therefore, it is designed to facilitate the Inland Revenue Department to collect tax from various “businesses” in Hong Kong. Business registration does not serve to regulate the business activities of any person. If a person carries on a business using one or more business or trade names, then a business registration certificate will be required for each different business or trade name. A business registration certificate is renewable every year and the current fee is HK\$450 for a 1-year business registration certificate. As at the Latest Practicable Date, the Group had all of the required business registration certificates for its business in Hong Kong.

As advised by the Hong Kong Legal Advisers, there is no specific licensing requirement for conducting the Group’s business in Hong Kong (in addition to what is required for carrying on business in Hong Kong in general) pursuant to the laws of Hong Kong.

#### *Taxation*

##### *(i) Corporate profits tax*

In general, persons, including corporations, partnerships, trustees and bodies of persons carrying on any trade, professional or business in Hong Kong are liable for tax on all profits (excluding profits arising from the sale of capital assets) arising in or derived from Hong Kong from such trade, profession or business. The corporate tax rate of Hong Kong was 16.5% for the Track Record Period.

##### *(ii) Stamp duty*

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of Shares registered on the Hong Kong branch register of members. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred on each of the seller and purchaser. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK\$5.00. Where a sale or purchase of Shares registered on the Hong Kong branch register is effected by a person who is not resident in Hong Kong and any stamp duty payable on the contract note is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon and the transferee shall be liable to pay such duty.

## REGULATIONS

### *(iii) Dividends*

Under the current practice of the Inland Revenue Department, no profits tax is payable in Hong Kong in respect of dividends paid by the Group.

## **(B) PRC LAWS AND REGULATIONS**

This section sets out summaries of certain major laws and regulations, which are relevant to the Group’s business and operation in the PRC.

### **A. Company establishment and foreign investment**

#### *1. Company Law and the Wholly Foreign-owned Enterprise Law*

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (中華人民共和國公司法) (the “PRC Company Law”), which was promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) on 29 December 1993 and came into effect on 1 July 1994. The PRC Company Law was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005. According to the PRC Company Law, companies established in the PRC are either limited liability companies or joint stock limited companies. The PRC Company Law applies to both PRC domestic companies and foreign-invested companies; however where the PRC Company Law is silent on matters relating to foreign-invested companies, such matters may be addressed by other PRC laws and regulations.

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

#### *2. The Provisions on Guiding Foreign Investment Direction and the Catalogue for the Guidance of Foreign Investment Industries*

In 1995, the State Planning Commission (國家計劃委員會), the State Economic and Trade Commission (國家經濟貿易委員會) and the Ministry of Foreign Trade and Economic Cooperation (對外經濟貿易合作部) jointly promulgated the Interim Provisions on Guiding Foreign Investment Direction (指導外商投資方向暫行規定) (the “Interim Foreign Investment Provisions”) and the Catalogue for the Guidance of Foreign Invested Industries (外商投資產業指導目錄) (the “Foreign Investment Catalogue”), classifying all foreign investment projects into four categories: encouraged projects, permitted projects, restricted projects and prohibited projects. On 11 February 2002, the State Council promulgated the Provisions on Guiding Foreign Investment Direction (指導外商投資方向規定) (the “Foreign Investment Provisions”), re-stating the four categories of foreign investment projects. The Foreign Investment Provisions came into force on 1 April 2002 and the Interim Foreign Investment Provisions were simultaneously repealed. The Foreign Investment Catalogue has been revised in 1997, 2002, 2004, 2007 and 2011 respectively since it was first promulgated. The version of the Foreign Investment Catalogue currently in effect was

## REGULATIONS

jointly promulgated by the National Development and Reform Commission (國家發展和改革委員會) and the Ministry of Commerce (商務部) on 24 December 2011 and came into effect on 30 January 2012, pursuant to which garment production and sale falls into permitted projects.

### **B. Product quality**

The Product Quality Law of the PRC (中華人民共和國產品質量法), which was promulgated by the Standing Committee of the National People’s Congress on 22 February 1993 and amended on 8 July 2000 and 27 August 2009 respectively, applies to all production and marketing activities within the territory of the PRC. Producers and sellers are responsible for the product quality according to the provisions of this law.

Responsibilities and obligations of producers for the products include: (i) be responsible for the quality of the products they produce; (ii) marks on the products or on the packages thereof shall be true to the fact; (iii) not to produce products expressly phased out by state laws or decrees; (iv) not to forge the place of origin, or forge or illegally use the name and address of another producer; (v) not to forge or illegally use product quality marks, such as authentication marks; (vi) not to mix impurities or imitations into the products, or substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the production; and (vii) to ensure that, for products that are fragile, inflammable, explosive, toxic, corrosive or radioactive, products that should be kept upright during storage and transportation, or other products with special requirements, the packaging thereof must meet the corresponding requirements, and carry warning marks or warning notes to highlight the way of handling that calls for attention.

A producer in breach of the above responsibilities and obligations shall be liable for civil compensation. The authorities shall order the suspension of production, confiscate the products illegally produced, impose a fine and confiscate the unlawful proceeds (if any) therefrom. Where the case is serious, business licences shall be revoked. Where a criminal offence is constituted, the offenders will be pursued for criminal liabilities.

### **C. Intellectual property right**

In accordance with the Trademark Law of the PRC (中華人民共和國商標法), which was promulgated by the Standing Committee of the National People’s Congress on 23 August 1982 and amended on 22 February 1993 and 27 October 2001 respectively, natural persons, legal persons, or other organizations that need to obtain the exclusive right to use trademarks for the goods they produce, manufacture, process, select, or distribute shall apply to the Trademark Office (商標局) for trademark registration. The users of a trademark shall be responsible for the quality of their goods bearing that trademark. If the goods bearing a registered trademark are roughly and poorly manufactured or are inferior goods passed off as quality goods, thereby deceiving consumers, the administrative departments for industry and commerce at each level shall, depending on the circumstances, order rectification within a specified time period and may additionally circulate a notice on the matter or impose a fine, or alternatively, the Trademark Office (商標局) may cancel the registered trademark.

The exclusive right to use a registered trademark shall be limited to the trademark registered upon verification and approval and the goods approved to be designated to be covered by the trademark. Any of the following acts shall be deemed infringement of the exclusive right to use a registered trademark: (i) using a trademark which is identical with or similar to the registered trademark on the same kind of

## REGULATIONS

goods or similar goods without the permission of the trademark registrant; (ii) selling any goods that infringe upon the exclusive right to use a registered trademark; (iii) forging, manufacturing without authorisation the marks of a registered trademark of others, or selling the marks of a registered trademark forged or manufactured without authorisation; (iv) changing a registered trademark and putting the goods bearing the changed trademark into the market without the consent of the trademark registrant; (v) causing any other damage to the exclusive right of others to use a registered trademark.

In the event of disputes arising from any of the above acts, the parties shall negotiate for a resolution. If any party refuses to negotiate or the negotiation proves futile, the trademark registrant or an interested party may file a lawsuit with a people’s court, or refer the case to the administrative department for industry and commerce. If the administrative department for industry and commerce concludes that an infringement is constituted, it shall order an immediate cessation of the infringement, and shall confiscate and destroy the infringing goods and the tools especially used to produce the infringing goods and to forge the marks of the registered trademark, and may additionally impose a fine.

### **D. Environmental protection**

The PRC laws and regulations on environmental protection mainly include the Environmental Protection Law of the PRC (中華人民共和國環境保護法) promulgated on 26 December 1989 and amended on 25 December 1995, Regulations on Management of Environmental Protection for Construction Projects (《建設項目環境保護管理條例》), promulgated on 29 November 1998, Law of the People’s Republic of China on Environmental Impact Appraisal (《中華人民共和國環境影響評價法》), promulgated on 28 October 2002, 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) promulgated on 11 May 1984 and amended on 15 May 1996 and 28 February 2008 respectively, 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) promulgated on 5 September 1987 and amended on 29 August 1995 and 29 April 2000 respectively, Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法) promulgated on 30 October 1995 and amended on 29 December 2004, and Law of the PRC on the Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法) promulgated on 29 October 1996.

Pursuant to the above laws and regulations, enterprises that discharge waste gases, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation in the course of production, construction or other activities shall adopt effective measures to prevent and control the pollution and harms caused to the environment, comply with applicable national and local standards, as well as report to and register with the applicable environmental protection authorities.

According to the requirements of competent environmental protection bureau, Runway Jiaxing’s production must meet the following environmental protection standards: (i) living waste water must be discharged into the sewage pipe network after being treated to meet the Level Three standard in the Table 4 of GB8978-1996 Standard, and no other outfalls may be set; (ii) waste gases from kitchens within the factory area must be discharged after being treated to meet GB18483-2001 Standard; (iii) noise reduction measures must be taken on equipment generating intense noise to meet the Class III standard of GB12348-90 Standard; and (iv) solid waste may not be piled up randomly and must be collected by qualified organizations for recycling and comprehensive utilization.

## REGULATIONS

### **E. Labour Laws**

#### *1. The Labour Contract Law*

The Labour Contract Law of the PRC (中華人民共和國勞動合同法) (the “PRC Labour Contract Law”) was promulgated by the Standing Committee of the National People’s Congress on 29 June 2007 and came into effect on 1 January 2008. The PRC Labour Contract Law is enacted to define the rights and obligations of parties to a labour contract, including matters with respect to the establishment, performance and termination of a labour contract.

Under the PRC Labour Contract Law, (i) a written labour contract shall be concluded when a labour relationship is to be established between an employer and an employee; (ii) an employer must pay an employee two times his salary for each month in circumstance where it fails to enter into a written labour contract with the employee for more than a month but less than a year; where such period exceeds one year, the parties are deemed to have entered into a unfixed-term labour contract; (iii) an employer shall pay an employee the full amount of salary in a timely manner in accordance with the provisions stipulated in the labour contract; (iv) an employer who fails to pay an employee’s salary on time and in full as stipulated in the labour contract must, in addition to his full salary, pay additional compensation to the employee at a rate of not less than 50 percent but not more than 100 percent of the amount payable; (v) the amount of compensation an employer may seek from an employee for breach of the agreed service term may not exceed the training expenses paid by the employer; (vi) an employee may have his labour contract terminated if the employer fails to pay social insurance premiums for the employee in accordance with law; and (vii) an employer who collects money or property from employees in the name of guarantee or in other names may be fined a maximum of RMB2,000 for each employee.

#### *2. Law on Employment Promotion*

The Law of the PRC on Employment Promotion (中華人民共和國就業促進法) (the “Law on Employment Promotion”) was promulgated by the Standing Committee of the National People’s Congress on 30 August 2007 and came into effect on 1 January 2008. The Law on Employment Promotion contains provisions on policy support, fair employment, employment service and management, and vocational education and training. More particularly, the Law on Employment Promotion (i) states explicitly that employment discrimination should be eliminated, and the employees discriminated by acts in violation of the provisions may file a lawsuit with the people’s court; (ii) provides that public employment service agencies established by the People’s Government at the county level or above should provide free services to employees, including consultation of employment policies and regulations, vocational training, and price guidance for market wages; (iii) establishes an employment and unemployment registration system, stipulating that employers should provide necessary information to facilitate the registration.

## REGULATIONS

### F. Social Insurance and Housing Provident Fund

#### 1. Social insurance

According to the Interim Regulations on Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), which was promulgated and came into effect on 22 January 1999, enterprises are required to pay basic pension insurance, basic medical insurance and unemployment insurance for their employees. An enterprise shall, within 30 days from the date of its establishment, apply for social insurance registration with the local social insurance agency based on its business license, registration certificate or other relevant certificate. After verification, a Social Insurance Registration Certificate (社會保險登記證) will be issued to it by the social insurance agency. Furthermore, the enterprise shall, on a monthly basis, report to the social insurance agency the amount of social insurance premiums payable and, after assessment by the social insurance agency, pay its social insurance premiums within the prescribed time limit.

Furthermore, pursuant to the Regulations on Occupational Injury Insurances (工傷保險條例), which was amended on 20 December 2010 and came into effect on 1 January 2011, employers are required to pay occupational injury insurance premiums for their employees. Pursuant to the Provisional Measures on Maternity Insurance for Enterprise Employees (企業職工生育保險試行辦法), which was promulgated on 14 December 1994 and came into effect on 1 January 1995, employers are required to pay maternity insurance premiums for their employees.

The Social Insurance Law of the PRC (中華人民共和國社會保險法), which was promulgated on 28 October 2010 and came into effect on 1 July 2011, requires that employers within the PRC shall pay social insurance premiums, including basic pension insurance, basic medical insurance, occupational injury insurance, unemployment insurance and maternity insurance. According to this law, rural residents working in urban cities and foreigners working in the PRC shall also participate in social insurance.

#### 2. Housing provident fund

According to the Regulations on Management of Housing Provident Fund (住房公積金管理條例), which became effective on 3 April 1999 and was amended on 24 March 2002, enterprises in the PRC must register with the housing provident fund management centre, maintain housing provident fund accounts with designated banks for their employees, and deposit into the fund an amount not less than 5% of each employee’s average monthly salary in the previous year.

### G. Taxation

#### 1. Income tax

According to the new Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) which was promulgated by the National People’s Congress on 16 March 2007 and came into effect on 1 January 2008, and the Implementation Regulations of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) which was promulgated on 6 December 2007 and came into effect on 1 January 2008, PRC resident enterprises shall pay enterprise income tax on their income derived from both within and outside the PRC. For non-resident enterprises which have established agencies or offices in the PRC, they shall pay enterprise income tax on

## REGULATIONS

their income earned by such agencies or offices from inside the PRC, and their income derived from outside the PRC but actually associated with such agencies or offices. The income tax rate for both domestic and foreign-invested enterprises is 25%.

In accordance with the Arrangement between Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) promulgated on 21 August 2006 and effective on 8 December 2006, if a Hong Kong enterprise owns at least 25% equity interest in a PRC enterprise, the dividends paid by the PRC enterprise to the Hong Kong enterprise are subject to a withholding tax of up to 5% of the total amount of the dividends. In accordance with the Notice on Issues Relevant to the Implementation of Dividend Provisions in Tax Treaties (關於執行稅收協定股息條款有關問題的通知) issued by the State Administration of Taxation on 20 February 2009, to enjoy the benefits offered by tax treaties, the proportion of interest in the PRC resident enterprise directly owned by the tax resident of the other side at any time during the 12-month period prior to the receipt of dividends shall remain compliant with that provided in the tax treaties.

### 2. *Value-added tax*

Pursuant to the Interim Regulations of the PRC on Value-added Tax (中華人民共和國增值稅暫行條例) which was last amended on 10 November 2008 and took effect on 1 January 2009, and its Implementation Regulations which was last amended on 28 October 2011, all enterprises and individuals engaging in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of the PRC are subject to value-added tax (“VAT”). The applicable VAT rate for taxpayers providing processing, repairs and replacement services shall be 17%, and that for taxpayers exporting goods shall be 0 percent except as otherwise stipulated by the State Council.

### 3. *Urban maintenance and construction tax and education surtax*

Pursuant to the Interim Regulations of the PRC on Urban Maintenance and Construction Tax (中華人民共和國城市維護建設稅暫行條例) which was promulgated on 8 February 1985 and took effect from 1 January 1985, and Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax (國家稅務總局關於城市維護建設稅徵收問題的通知) which was promulgated on 12 March 1994 and took effect from 1 January 1994, any enterprise or individual subject to consumption tax, VAT and business tax shall also be required to pay urban maintenance and construction tax. The amount of urban maintenance and construction tax shall be based on the consumption tax, VAT and business tax actually paid by a taxpayer, and shall be paid simultaneously with payment thereof. The rates of urban maintenance and construction tax shall be 7% for a taxpayer in city, 5% for a taxpayer in county or town and 1% for a taxpayer in places other than a city, county or town.

In accordance with the Interim Provisions on the Collection of Educational Surtax (徵收教育費附加的暫行規定) which was last revised on 8 January 2011, any enterprise or individual subject to consumption tax, VAT and business tax shall also be required to pay educational surtax. The rate of educational surtax is 3%, based on the amount of consumption tax, VAT and business tax actually paid by each enterprise or individual, and the educational surtax shall be paid simultaneously with the payment of consumption tax, VAT and business tax.

## REGULATIONS

### 4. *Land use tax*

Pursuant to the Interim Regulations of the PRC on Land Use Tax in Cities and Towns (中華人民共和國城鎮土地使用稅暫行條例) which was promulgated on 27 September 1988 and amended on 31 December 2006 and 8 January 2011 respectively, all enterprises and individuals using land within the scope of cities, counties, administrative towns, and industrial and mining areas are subject to land use tax. The land use tax shall be calculated on the basis of the areas of land actually occupied by the taxpayers and shall be collected in accordance with the specified amount of tax.

The annual amount of land use tax per square meter is as follows: (i) 1.5 to 30 yuan in large cities; (ii) 1.2 to 24 yuan in medium cities; (iii) 0.9 to 18 yuan in small cities; and (iv) 0.6 to 12 yuan in counties, administrative towns, and industrial and mining areas.

### 5. *Real estate tax*

Pursuant to the Interim Regulations of the PRC on Real Estate Tax (中華人民共和國房產稅暫行條例) which was promulgated on 15 September 1986 and amended on 8 January 2011, real estate tax is levied in cities, counties, state designated townships and industrial and mining areas, and shall be paid by the owner of the property right. The real estate tax shall be calculated on the residual value following the subtraction of 10% to 30% of the original value of the property at a rate of 1.2%.

## **H. Rules on foreign exchange and dividend distribution**

### 1. *The Regulations on Foreign Exchange Administration*

The principal regulation governing foreign exchange in the PRC is the Regulations of the PRC on Foreign Exchange Administration (中華人民共和國外匯管理條例), which was promulgated by the State Council on 29 January 1996, effective on 1 April 1996 and was amended on 14 January 1997 and 5 August 2008 respectively. Under these rules, RMB is freely convertible for payments of current account items, including trade and service-related foreign exchange transactions and dividend payments, but not for capital account expenses, including direct investment, loan or investment in securities outside the PRC. RMB may only be converted for capital account expenses once the prior approvals of relevant foreign exchange administrative departments have been obtained. Under the Regulations on Foreign Exchange Administration, foreign-invested enterprises in the PRC may purchase foreign currencies without the approvals of relevant foreign exchange administrative departments for trade and service-related foreign exchange transactions by providing commercial documents evidencing such transactions. They may also retain foreign currencies (subject to a cap approved by the foreign exchange administrative departments) to satisfy foreign exchange liabilities or to pay dividends. But foreign exchange transactions involving direct investment, loans and investment in securities outside the PRC are subject to limitations and require approvals from the foreign exchange administrative departments.



## REGULATIONS

### 2. *SAFE registration*

Pursuant to the Notice of the SAFE on Relevant Issues Concerning Foreign Exchange Administration Involved in Financing and Inbound Investment Conducted by PRC Residents via Overseas Special Purpose Vehicles (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 “SAFE Circular No. 75”) issued on 21 October 2005, (i) PRC residents should register with the local branch of the SAFE before establishing or controlling a privately-held overseas special purpose vehicle (the “Overseas SPV”) for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or its equity interest in a domestic enterprise into an Overseas SPV, or engages in overseas financing after contributing assets or equity interest into an Overseas SPV, such PRC resident shall register his or her interest in the Overseas SPV and the change thereof with the local branch of the SAFE; and (iii) when the Overseas SPV undergoes such material capital alteration as a change in share capital or merger and acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register with the local branch of the SAFE. Under the SAFE Circular No. 75, failure to comply with the registration procedures set forth above may result in restrictions on a PRC subsidiary’s foreign exchange activities and its ability to distribute dividends to Overseas SPV, as well as the imposition of penalties in accordance with the law.

The Controlling Shareholders are not “PRC residents” as defined in the SAFE Circular No. 75. They are, therefore, not required to register with the local branch of the SAFE under the SAFE Circular No. 75.

### 3. *Regulations on dividend distribution*

The principal laws and regulations governing the distribution of dividends paid by wholly foreign-owned enterprises in the PRC include (i) the PRC Company Law; (ii) the WFOE Law; and (iii) the Rules for the Implementation of the WFOE Law. Under the above laws and regulations, domestic companies and wholly foreign-owned enterprises in the PRC may distribute dividends only from accumulated after-tax profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each year, if any, as certain reserve funds until the accumulated reserve funds reach and remain above 50% of their registered capital. These reserves are not distributable as cash dividends. Under the relevant PRC laws, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

The PRC Legal Advisers are of the opinion that save for the noncompliant incidents as disclosed in the paragraph headed “Non-compliances” under the section headed “Business” in this document, the Group has complied with all relevant PRC laws and regulations in all material respects and obtained all relevant approvals/certificates which are necessary for its operations in the PRC up to the Latest Practicable Date.

## REGULATIONS

### (C) US LAWS AND REGULATIONS

The majority of the Group’s products are sold to customers located in the US during the Track Record Period. Accordingly, the Group’s sales to customers in the US are subject to certain US laws and regulations, including those summarized in the following paragraphs.

#### US import regulations

##### *Quotas*

Starting 1 January 2009 all apparel products exported from China to the US were no longer subject to quota (quantitative restrictions). Under the global safeguard and China-specific safeguard (which expires at the end of 2013), the US could re-impose quantitative restrictions, albeit on a limited basis, on apparel products from China.

##### *Custom duties*

All goods imported into the US are either subject to duty or duty free, depending on their classification under the applicable heading in the Harmonized Tariff Schedule of the United States (“HTSUS”).

When goods are dutiable, ad valorem, specific or compound rates may be assessed.

- ad valorem rate — the type most often applied — is a percentage of the entered value of the merchandise, such as 5% ad valorem.
- specific rate — a specified amount per unit of weight or item count, such as 5.9 cents per dozen.
- compound rate — a combination of both an ad valorem rate and a specific rate, such as 0.7 cents per kilo plus 10% ad valorem.

Rates of duty for imported merchandise may also vary depending upon the country of origin. Apparel manufactured in China is dutiable under NTR (normal trade relations) rates. US Customs and Border Protection (“CBP”) has the authority to make a “rate advance” should CBP determine that the classification claimed by the importer is incorrect.

The Group’s products are generally subject to an ad valorem duty rate of between 3% and 32%. Duty is paid by the Group’s customers when the Group’s customers purchase products from the Group on an FOB (free on board) China basis and by the Group when the Group’s customers purchase products from the Group on an LDP (landed duty paid) basis.

##### *Classification*

All goods that enter the US are classified according to the HTSUS. The United States International Trade Commission maintains and publishes the HTSUS, but CBP is responsible for interpreting and enforcing it.

## REGULATIONS

The HTSUS comprises a hierarchical structure for describing all goods in trade for duty, quota, and statistical purposes. This structure is governed by The International Convention on the Harmonized Commodity Description and Coding System (“HS”) which is administered by the World Customs Organization (“WCO”). The four-digit and six-digit HS product categories are subdivided into unique eight-digit rate lines unique to the US and 10-digit non-legal statistical reporting categories. Classification of goods in this system must be done in accordance with the General and Additional US Rules of Interpretation, starting at the four-digit heading level to find the most specific provision and then moving to the subordinate categories.

The HTSUS is currently divided into 99 chapters, almost all of which are grouped by product type. Textile and textile articles are grouped under Section XI of the HTSUS. The Group’s products fall under Chapter 61 (knit apparel) and Chapter 62 (woven apparel) of such section.

### *Valuation*

Under US law, the preferred basis of valuation, against which the relevant duty rate is applied, is the “transaction value” of the goods. Transaction value is normally the price paid by the US importer to the foreign seller. Where the foreign seller is a middleman and not the manufacturer, transaction value may, under “first sale” principles, be based on the lower price paid by the foreign seller to the foreign factory.

Where the Group’s customers purchase products from the Group on an FOB basis and therefore act as the importers, the customers pay duty based on Runway HK’s price. Where the Group sells on an LDP basis and therefore is responsible for importing the goods and paying for the duty, the Group pays duty on such intragroup price.

Where goods imported into the US are involved in a series of sales (for example, factory to middleman, middleman to customer, etc.), CBP has the authority to make a “valuation advance” should CBP determine that the basis of valuation is a later sale and not an earlier sale claimed by the importer. Further, should CBP determine that goods are undervalued, CBP has the authority to impose monetary penalties.

### *Marking*

All apparel products require country of origin markings, the location of which (e.g., center neck or waistband) depends on the type of garment. In addition to origin markings, apparel products are also required to be marked for washing instructions, fiber content and other information. Origin and other marking requirements are administered and/or enforced by CBP and the United States Federal Trade Commission. Marking violations can result in monetary penalties and delays in customs clearance.

### *Security*

In the aftermath of the events of 11 September 2001, CBP implemented various security requirements to try and ensure that terrorists and their weapons are not introduced into the US in shipments of imported merchandise, especially those originating or transshipping through countries or jurisdictions perceived to be “high-risk.” These include rules requiring advance transmission of

## **REGULATIONS**

electronic cargo information to CBP for incoming cargo and security checks of imported merchandise on entry into the US, all of which may result in clearance delays and stoppage of shipments.

### **US product quality and consumer protection**

The importation of certain classes of merchandise may be prohibited or restricted to protect the economy and security of the US, to safeguard consumer health and well being, or to preserve domestic plant and animal life.

Many of these prohibitions and restrictions are prescribed by laws and regulations administered by CBP or by other US government agencies with which CBP co-operates in enforcement. This applies to all types of importations, including those made by mail and those placed in foreign-trade zones (FTZs).

Any consumer product offered for importation will be refused admission if it (a) fails to comply with an applicable product safety rule or with a specified labeling or certification requirement, or (b) has a product defect which constitutes a substantial product hazard. These requirements are administered by the U.S. Consumer Product Safety Commission. Under the Consumer Product Safety Improvement Act of 2008, children’s products, including children’s apparel, are subject to testing, certification and tracking-label requirements.

### **Copyrights and use of trademarks with respect to US imports**

Articles bearing counterfeit trademarks are subject to seizure and forfeiture. Marks that are confusingly similar to a registered trademark that has been recorded with CBP are subject to detention and possible seizure and forfeiture. The importation of “parallel” or “grey market” goods is restricted where the registered trademark has been recorded with CBP and grey market protection has been afforded.

Articles imported into the US that are clearly piratical of a registered copyright recorded with CBP are subject to seizure and forfeiture.

### **Anti-dumping in the US**

In the US, the United States International Trade Commission and United States Department of Commerce share responsibility for investigating allegations of dumping, under authority granted by the Tariff Act of 1930 (19 U.S.C 1202 et. seq.). Where an investigation reveals that foreign products are being “dumped” into the US, the United States Department of Commerce may impose appropriate dumping duties as a remedy.

In addition to dumping duties, the United States Department of Commerce may also impose countervailing duties where imported products have been found to benefit from government subsidies.

The latest US Customs’ list of products whose imports are subject to anti-dumping duties include largely industrial products and food and there are currently no products manufactured by the Group that are on the list.

## REGULATIONS

### (D) CANADIAN LAWS AND REGULATIONS

#### Overview

The import of clothing into Canada is governed by a number of Canadian federal laws and regulations. Most clothing items imported into Canada are subject to import duties, and Canadian law enables the use of import controls and duties to protect domestic markets. Imported clothing is also subject to product safety standards and labelling requirements, and must abide by laws and regulations protecting trademarks and copyrights.

#### Import regulations

The *Export and Import Permits Act* (“EIPA”) enables the establishment of a list of products which are subject to Canadian import controls. Products may be added to the Import Control List for a number of reasons.

In particular, the *EIPA* allows import controls to be imposed on goods originating in the PRC if they are being imported into Canada in circumstances causing market disruption to Canadian producers. Import permits are not currently required for clothing and textile imports into Canada from the PRC.

#### Import duties and tariffs

All goods that enter Canada are categorised according to the *Customs Tariff*, which is based on international standards prescribed by the World Customs Organization’s Harmonized Commodity Description and Coding System (“HS”). Textiles and textile articles are grouped under Section XI of the Schedule to the *Customs Tariff*, with each type of item assigned an *HS Code*.

Goods imported into Canada may be subject to duty depending on their HS Code. The applicable duty rate depends on both the nature of the goods and their country of origin.

Most clothing items imported into Canada from the PRC are currently subject to an 18% import duty payable by the importer.

#### Product labelling

##### *Textile labelling*

Under the *Textile Labelling Act* (“TLA”) and its regulations, consumer textile items in Canada have specific labelling requirements. The TLA requires that consumer textile articles including clothing have a label properly attached which states the generic name of each textile fibre comprising 5% or more by mass of the total fibre mass of the item, the percentage by mass of the total fibre mass of the article of each textile fibre type, and the identity of the person by or for whom the consumer textile article was manufactured. This information must be displayed in both English and French unless certain conditions apply.

## REGULATIONS

### *Country of origin labelling*

Under the Determination of Country of Origin for the Purpose of Marking Goods (Non-NAFTA Countries) Regulations, textiles and clothing items are required to be marked in accordance with the Marking of Imported Goods Regulations (“MIGR”) to indicate the country in which the goods were substantially manufactured to the ultimate purchaser.

It is illegal under the TLA and the MIGR to import textile articles into Canada which do not conform to these labelling requirements unless special procedures are followed by the importer, including advance notification by the importer to authorities and proper labelling of the items after import.

### *Copyrights and use of trademarks with respect to imports*

Pursuant to Canada’s *Trade-marks Act*, imported items bearing counterfeit trademarks are subject to seizure and forfeiture, and future imports of such items may be prohibited.

Knowingly importing infringing copies of works or other subject matter in which copyright subsists is an offence under Canada’s *Copyright Act*.

### **Product safety in Canada**

#### *General product safety*

The *Canada Consumer Product Safety Act* (“CCPSA”) and its regulations set out product quality and safety standards for consumer products including textile items. Under the *CCPSA*, it is illegal to manufacture, import, advertise or sell consumer products including consumer textile articles that fail to meet the quality and safety standards set by the regulations or otherwise pose a danger to human health or safety. Violation of the *CCPSA* or its regulations is a criminal offence, punishable by fines of up to CAD5 million and imprisonment of up to two years.

#### *Textile Flammability Regulations*

The *Textile Flammability Regulations* set out specific flammability standards for consumer textile articles, measured according to the flame spread time of the fabric. Flame spread time must be determined according to the Canadian General Standards Board standard CAN/CGSB-4.2 No. 27.5, entitled *Textile Test Methods — Flame Resistance — 45° Angle Test — One-Second Flame Impingement*. The *Children’s Sleepwear Regulations* impose more stringent requirements for products falling under those regulations.

### **Consumer protection in Canada**

Statutes governing the sale of goods are a matter of provincial jurisdiction in Canada, and all provinces and territories have legislated a *Sale of Goods Act* or similar legislation. These statutes generally contain provisions requiring that sellers only delivery such goods to the consumer that are in conformity with the contract seller’s description in the sale, that are reasonably fit for the purposes required by the consumer as made known by him to the seller, and that will be durable

## REGULATIONS

for a reasonable period of time having regard to the use to which they would normally be put. These statutes also provide consumers with rights and remedies in the event of a breach of these warranties and conditions.

Product liability claims are often founded in negligence rather than contract, most commonly with the manufacturer as defendant, and the manufacturer has a duty to take reasonable care to ensure that its products are safe for their foreseeable uses.

### **Anti-dumping in Canada**

The Canada Border Services Agency and the Canadian International Trade Tribunal are jointly responsible for administering the *Special Import Measures Act* (“*SIMA*”), which provides authority to investigate whether dumping or subsidising of imported goods has occurred.

Where an investigation reveals that imported foreign products are being dumped into Canada or have been subject to a prohibited subsidy, *SIMA* imposes anti-dumping or countervailing duties as a remedy for the dumping or subsidising activities. There are currently no measures under *SIMA* which impose any such duties on clothing or textiles imported into Canada.