
REGULATORY OVERVIEW

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The Group is principally engaged in (i) the provision of structural engineering works with a focus on design and build projects in Hong Kong; and (ii) trading of building material products predominately in Hong Kong. This section sets out summaries of certain aspects of Hong Kong and PRC laws, rules and regulations which are material to the Group's operation and business.

HONG KONG

Laws and Regulations in Relation to Construction Labour, Health and Safety

Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong)

The Factories and Industrial Undertakings Ordinance provides for the safety and health protection to workers in the industrial undertakings. Under the Factories and Industrial Undertakings Ordinance, it is the duty of a proprietor of an industrial undertaking, including construction work, to ensure, so far as is reasonably practicable, the health and safety at work of all persons employed by him at the industrial undertaking. The duties of a proprietor extend to include:

- providing and maintaining plant and work systems that do not endanger safety or health;
- making arrangements for ensuring safety and health in connection with the use, handling, storage and transport of articles and substances;
- providing all necessary information, instructions, training and supervision for ensuring safety and health;
- providing and maintaining safe access to and egress from the workplaces; and
- providing and maintaining a safe and healthy working environment.

A proprietor who contravenes any of these duties commits an offence and is liable to a fine of HK\$500,000. A proprietor who contravenes any of these requirements wilfully and without reasonable excuse commits an offence and is liable to a fine of HK\$500,000 and to imprisonment for 6 months.

Matters regulated under the subsidiary regulations of the Factories and Industrial Undertakings Ordinance, including the Construction Sites (Safety) Regulations, include (i) the prohibition of employment of persons under 18 years of age (save for certain exceptions); (ii) the maintenance and operation of hoists; (iii) the duty to ensure safety of places of work; (iv) prevention of falls; (v) safety of excavations; (vi) the duty to comply with miscellaneous safety requirements; and (vii) provision of first aid facilities. Non-compliance with any of these rules commits an offence and different levels of penalty will be imposed and a contractor guilty of the relevant offence could be liable to a fine up to HK\$200,000 and imprisonment up to 12 months.

Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)

The Occupational Safety and Health Ordinance provides for the safety and health protection to employees in workplaces, both industrial and non-industrial.

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Employers must as far as reasonably practicable ensure the safety and health in their workplaces by:

- providing and maintaining plant and systems of work that are safe and without risks to health;
- making arrangements for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;
- as regards any workplace under the employer's control:
 - maintenance of the workplace in a condition that is safe and without risks to health; and
 - provision and maintenance of means of access to and egress from the workplace that are safe and without any such risks;
- providing all necessary information, instructions, training and supervision for ensuring safety and health; and
- providing and maintaining a working environment for the employees that is safe and without risks to health.

An employer who fails to comply with any of the above provisions intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months.

The Commission for Labour may also issue an improvement notice against non-compliance of the Occupational Safety and Health Ordinance or the Factories and Industrial Undertakings Ordinance or suspension notice against activity or condition of workplace which may create imminent risk of death or serious bodily injury. Failure to comply with such notice without reasonable excuse constitutes an offence punishable by a fine of HK\$200,000 and imprisonment of up to 12 months and HK\$500,000 and imprisonment of up to 12 months respectively.

Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)

The Employees' Compensation Ordinance establishes a no-fault and non-contributory employee compensation system for work injuries and lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases.

Under the Employees' Compensation Ordinance, if an employee sustains an injury or dies as a result of an accident arising out of and in the course of his employment, his employer is in general liable to pay compensation even if the employee might have committed acts of faults or negligence when the accident occurred. Similarly, an employee who suffers incapacity arising from an occupational disease is entitled to receive the same compensation as that payable to employees injured in occupational accidents.

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According to Section 24 of the Employees' Compensation Ordinance, a principal contractor shall be liable to pay compensation to subcontractors' employees who are injured in the course of their employment to the subcontractor. The principal contractor is, nonetheless, entitled to be indemnified by the subcontractor who would have been liable to pay compensation to the injured employee. The employees in question are required to serve a notice in writing on the principal contractor before making any claim or application against such principal contractor.

Pursuant to Section 40 of the Employees' Compensation Ordinance, all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees). Under Section 40(1B) of the Employees' Compensation Ordinance, where a principal contractor has undertaken to perform any construction work, it may take out an insurance policy for an amount not less than HK\$200 million per event to cover his liability and that of his subcontractor(s) under the Employees' Compensation Ordinance and at common law. Where a principal contractor has taken out a policy of insurance under Section 40(1B) of the Employees' Compensation Ordinance, the principal contractor and a subcontractor insured under the policy shall be regarded as having complied with Section 40(1) of the Employees' Compensation Ordinance.

An employer who fails to comply with the Employees' Compensation Ordinance to secure an insurance cover is liable on conviction upon indictment to a fine of HK\$100,000 and to imprisonment for 2 years.

Employment Ordinance (Chapter 57 of the Laws of Hong Kong)

Pursuant to Section 43C of the Employment Ordinance, if any wages become due to the employee who is employed by a subcontractor on any work which the subcontractor has contracted to perform, and such wages are not paid within the period specified in the Employment Ordinance, such wages shall be payable by the principal contractor and/or every superior subcontractor jointly and severally. However, such payment of wages is recoverable from the subcontractor pursuant to Section 43F of the Employment Ordinance.

Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong)

The Occupiers Liability Ordinance regulates the obligations of a person occupying or having control of premises on injury resulting to persons or damage caused to goods or other property lawfully on the land.

The Occupiers Liability Ordinance imposes a common duty of care on an occupier of premises to take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

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Immigration Ordinance (Chapter 115 of the Laws of Hong Kong)

According to Section 38A of the Immigration Ordinance, a construction site controller (i.e. the principal or main contractor and includes a subcontractor, owner, occupier or other person who has control over or is in charge of a construction site) shall take all practicable steps to (i) prevent having illegal immigrants from being on site or (ii) prevent illegal workers who are not lawfully employable from taking employment on site.

Where it is proved that (i) an illegal immigrant was on a construction site or (ii) such illegal worker who is not lawfully employable took employment on a construction site, the construction site controller commits an offence and is liable to a fine of HK\$350,000.

Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)

The Minimum Wage Ordinance provides for a prescribed minimum hourly wage rate (currently set at HK\$32.5 per hour) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance. Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)

The Mandatory Provident Fund Schemes Ordinance requires the Group to provide retirement benefits to the employees. Under the said Ordinance, except for exempted persons, employees (full-time and part-time) and self-employed persons who are between 18 to 65 years of age are required to join a Mandatory Provident Fund Scheme.

Laws and Regulations in Relation to Environmental Protection

Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong)

The Air Pollution Control Ordinance is the principal legislation in Hong Kong for controlling emission of air pollutants and noxious odour from construction, industrial and commercial activities and other polluting sources. Subsidiary regulations of the Air Pollution Control Ordinance impose control on air pollutant emissions from certain operations through the issue of licences and permits.

Where applicable, a contractor shall observe and comply with the Air Pollution Control Ordinance and its subsidiary regulations, including without limitation the Air Pollution Control (Open Burning) Regulation (Chapter 311O of the Laws of Hong Kong), the Air Pollution Control (Construction Dust) Regulation (Chapter 311R of the Laws of Hong Kong) and the Air Pollution Control (Smoke) Regulations (Chapter 311C of the Laws of Hong Kong). For instance, the contractor responsible for a construction site shall devise, arrange methods of working and carry out the works in such a manner so as to minimise dust impacts on the surrounding environment, and shall provide experienced personnel with suitable training to ensure that these methods are implemented.

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Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong)

The Noise Control Ordinance controls, among others, the noise from construction, industrial and commercial activities. A contractor shall comply with the Noise Control Ordinance and its subsidiary regulations in carrying out construction works. For construction activities that are to be carried out during the restricted hours and for percussive piling during the daytime, not being a general holiday, construction noise permits are required from the Director of the Environmental Protection Department in advance.

Under the Noise Control Ordinance, construction works that produce noises and the use of powered mechanical equipment (other than percussive piling) are not allowed between 7:00 p.m. and 7:00 a.m. or at any time on general holidays, unless prior approval has been granted by the Director of the Environmental Protection Department through the construction noise permit system. The use of certain equipment is also subject to restrictions. Hand-held percussive breakers and air compressors must comply with noise emissions standards and be issued with a noise emission label from the Director of the Environmental Protection Department.

Any person who carries out any construction work except as permitted is liable on first conviction to a fine of HK\$100,000 and on subsequent convictions to a fine of HK\$200,000 and in any case to a fine of HK\$20,000 for each day during which the offence continues.

Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong)

Emission of dust from any building under construction or demolition in such manner as to be a nuisance is actionable under the Public Health and Municipal Services Ordinance. Maximum penalty is HK\$10,000 (level 3) upon conviction with a daily fine of HK\$200.

Discharge of muddy water etc. from a construction site is actionable under the Public Health and Municipal Services Ordinance. Maximum fine is HK\$5,000 upon conviction.

Any accumulation of water on any premises found to contain mosquito larvae or pupae is actionable under the Public Health and Municipal Services Ordinance. Maximum penalty is HK\$25,000 (level 4) upon conviction and a daily fine of HK\$450.

Any accumulation of refuse which is a nuisance or injurious to health is actionable under the Public Health and Municipal Services Ordinance. Maximum penalty is HK\$10,000 (level 3) upon conviction and a daily fine of HK\$200.

Any premises in such a state as to be a nuisance or injurious to health is actionable under the Public Health and Municipal Services Ordinance. Maximum penalty is HK\$10,000 (level 3) upon conviction and a daily fine of HK\$200.

The Laws in Relation to Contractor Licensing

Minor Works Control System

Under the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) (“**Buildings Ordinance**”), the carrying out of large-scale building works or works of a very simple nature are governed by the same set of controls, including the requirements to obtain prior approval and consent from the Buildings Department before commencement of works and to appoint authorised persons (i.e., architects, engineers and surveyors registered under the Buildings Ordinance), and registered professionals to design and supervise the works as well as registered contractors to carry out the works.

The requirements of the above system are too stringent for minor works which are of a smaller scale and pose a lower level of risk. This not only creates difficulties on control and enforcement, but also results in many unauthorised building works.

In view of the above, the Buildings Ordinance was amended in 2008 to provide for a minor works control system which has been fully implemented since 31 December 2010. The Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong) (“**B(MW)R**”) was passed by the Legislative Council in May 2009 to provide for a simplified control mechanism to facilitate the carrying out of minor works without prior approval of plans by the Buildings Department.

Classification of Minor Works

A total of 126 items of building works have been included as minor works under the B(MW)R. Detailed specifications for these 126 items of minor works are set out in Part 3 of Schedule 1 of the B(MW)R. These 126 items of minor works are classified into three classes according to their nature, scale, complexity and risk to safety.

- (1) Class I (total of 44 items) includes mainly those relatively more complicated minor works;
- (2) Class II (total of 40 items) comprises those of comparatively lower complexity and risk to safety; and
- (3) Class III (total of 42 items) mainly includes common household minor works.

All classes of minor works require the appointment of a prescribed registered contractor (including a registered minor works contractor) to carry out the minor works. However, as Class I minor works are relatively more complicated than those of the other two classes, they require a higher level of technical expertise and more stringent supervision. As a result, the appointment of prescribed building professionals, such as an authorised person(s) and, where structural and/or geotechnical elements are involved, a registered structural engineer and a registered geotechnical engineer respectively, are also required to provide design and supervision of the minor works. On the other hand, the involvement of a prescribed building professional is not required for Class II and Class III minor works, where the prescribed registered contractor will be responsible for the design and execution of the minor works.

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Under each class of minor works, works are further classified into different types. There are 7 types of minor works corresponding to the specialisation of works in the industry:

- (1) Type A: Alteration & Addition Works
- (2) Type B: Repair Works
- (3) Type C: Works relating to Signboards
- (4) Type D: Drainage Works
- (5) Type E: Works relating to Structures for Amenities
- (6) Type F: Finishes Works
- (7) Type G: Demolition Works

Details of the minor works items under each type of works are set out in Part 2 of Schedule 1 of the B(MW)R.

Register of Minor Works Contractors

In order to ensure that only contractors who are able to perform their duties and responsibilities in a competent manner are allowed to carry out the respective items of minor works, they are required to be registered under the Buildings Ordinance.

Under Section 8A(1)(c) of the Buildings Ordinance, the Director of Buildings (“**Building Authority**”) maintains a register of minor works contractors who are qualified to carry out such minor works belonging to the class, type and item specified in the register for which they are registered.

There are two types of registered minor work contractors, namely Registered Minor Works Contractors (Individual) (“**RMWCs (Ind)**”) and Registered Minor Works Contractors (Company) (“**RMWCs (Co)**”). RMWCs (Ind) are minor work contractors who are registered under Section 10(1)(a) of the B(MW)R in the name of an individual self-employed worker. RMWCs (Ind) is only allowed to carry out various items of class III minor works. RMWCs (Co) are minor work contractors who are registered under Section 10(1)(b) of the B(MW)R in the name of a company (including corporations, sole proprietorship and partnership) for carrying out various types and classes of minor works.

Requirements for registration as RMWC (Co)

Under Section 12(5) of the B(MW)R, an applicant for registration as an RMWC (Co) must satisfy the Building Authority on the following aspects:

- (a) the appropriate qualifications and experience of its key personnel;
- (b) it has access to plants and resources;
- (c) if it is a corporation, its management structure is adequate;

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- (d) the ability of the persons appointed to act for the applicant for the purposes of the Buildings Ordinance to understand the minor works under application through relevant experience and a general knowledge of the basic statutory requirements; and
- (e) the applicant is suitable for registration in the register of minor works contractors.

Pursuant to Section 12(6) of the B(MW)R, in deciding whether the applicant is suitable for registration in the register of minor works contractors, the Building Authority will take into account the following factors:

- (a) whether the applicant has any criminal record in respect of any offence under the laws of Hong Kong relating to the carrying out of any building works; and
- (b) whether any disciplinary order has been made against the applicant.

Authorised Signatory and Technical Director of RMWC (Co)

In considering each application for registration as an RMWC (Co), the Building Authority is to have regard to the qualifications, experience and suitability of the following key personnel of the applicant:

- (a) a minimum of one person appointed by the applicant to act for the applicant for the purposes of the Buildings Ordinance hereinafter referred to as the Authorised Signatory (“AS”); and
- (b) for a corporation — a minimum of one director from the board of directors of the applicant, hereinafter referred to as the Technical Director (“TD”), who is authorised by the board to:
 - (i) have access to plants and resources;
 - (ii) provide technical and financial support for the execution of minor works; and
 - (iii) make decisions for the company and supervise the AS and other personnel

for the purpose of ensuring that the works are carried out in accordance with the Buildings Ordinance.

Persons Eligible to be the AS or TD of RMWC (Co)

The following persons are eligible to become the AS and the TD of the applicant:

- (a) if the applicant is a sole proprietorship, the sole proprietor is the only person eligible to act as the AS.
- (b) if the applicant is a partnership, any partner appointed by all the other partners is eligible to act as the AS.
- (c) if the applicant is a corporation, a suitable person appointed by the board of directors is eligible to act as the AS, whereas the TD must be a director appointed under the Companies Ordinance and appointed by the board of directors to perform the role of TD.

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The Building Authority imposes specific requirements on the qualifications and experience of the key personnel of a registered minor works contractor. The following table summarises the said specific requirements for registered minor works contractor imposed by the Building Authority:

<u>Key personnel</u>	<u>Specific requirements on the key personnel</u>
Authorised Signatory	<p>Must has:</p> <ol style="list-style-type: none">1. at least 3 years' relevant experience in building industry, 1 year of which should be gained locally; and2. been involved in 7 relevant items of minor works in Hong Kong in which 1 of them must be completed within the 3 years preceding the date of application for registration; and3. at least a certificate, diploma or equivalent in the field of construction technology such as architecture, building studies, building surveying, civil engineering and structural engineering or in other fields of studies which the Building Authority accepts.
Technical Director	<p>Must has:</p> <ol style="list-style-type: none">1. at least 5 years' relevant experience in building industry in which 1, 3 or 5 years should be in managing a building contractor company in Hong Kong depending on the class of application; or2. 3 years' relevant experience in building industry, 1 year of which should be gained locally; and3. at least a certificate, diploma or equivalent in the field of construction technology such as architecture, building studies, building surveying, civil engineering and structural engineering or in other fields of studies which the Building Authority accepts; or

A person is allowed to take up the role of the AS as well as the role of the TD of a corporation at the same time provided that he meets the requirements of both AS and TD.

To ensure that adequate supervision and proper management are provided for the carrying out of minor works and to avoid possible situations of conflict of interest, persons who have been accepted as the AS/TD for an RMWC (Co) cannot act as a key personnel for another contractor firm simultaneously.

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Validity Period of Registration and Renewal of Registration

Pursuant to Section 13 of the B(MW)R, the registration as RMWC (Co) is valid for a period of three years commencing from the date of entry of the name in the register of minor works contractors maintained by the Building Authority. Under Section 14(1) and (2) of B(MW)R, an RMWC (Co) may apply to the Building Authority for renewal of registration within a period not earlier than 4 months and not later than 28 days prior to the expiry of the registration. A renewed registration will expire on the third anniversary of the expiry date of the previous registration.

Development Bureau projects

If a contractor wishes to carry out structural steelwork projects of the Development Bureau, it must be included in the List of Approved Suppliers of Materials and Specialist Contractors for Public Works (the “**Approved Specialist List**”) which is administered by the Works Branch of the Development Bureau, under the category of Structural Steelwork. The scope of work in this category and class covers the fabrication and erection of structural steelwork for highway structures.

Generally, contractors are required to meet the financial, technical, management, personal and safety criteria applicable to their appropriate category and group for admission and retention on the approved lists and for the award of public work contracts. For retention on the Approved Specialist List, a contractor should generally possess at least a positive capital value. In addition, a contractor is required to maintain certain minimum levels of employed and working capital and annual turnover applicable to the appropriate category and group.

In granting a registration/approval to a structural steelwork contractor, the Works Branch of the Development Bureau takes into consideration, among others, (a) the contractor’s financial strength; (b) the contractor’s technical experience and management capability; and (c) the machinery.

For retention as an approved contractor on the Approved Specialist List under the Structural steelwork category, the Group is required to meet the minimum financial criteria and other requirements as follows:

(a) *Minimum employed capital*

HK\$1,140,000 plus a minimum annual turnover of HK\$50 million in each of the immediate past three years.

(b) *Minimum working capital*

HK\$1,140,000 or 15% of the combined annual value of uncompleted works on outstanding contracts both in the public and private sectors, whichever is higher.

(c) *Minimum technical and management criteria/other requirements*

- (i) Job experience: Satisfactory completion of at least three projects in the fabrication and erection of structural steelworks for permanent civil engineering or building structures in the past 3 years, each with a value of HK\$500,000 of more.

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- (ii) Top management: Top management shall possess relevant professional and management experience and have sufficient commitment for control of the works.
- (iii) Technical staff: (a) Professional and technical staff experienced in the design, fabrication and erection of structural steelwork; (b) Local workforce for erection of steelwork; and (c) at least 3 qualified welders to BS 4570, BS EN287-1 or BS 4872: Part 1 as appropriate.
- (iv) Plant and equipment: appropriate equipment including welding plant, lifting crane, drilling machine, bending machine, lathe, shearing machine, flame cutting machine, plate rolling machine, grit blasting equipment, grinder, planing, shaping and slotting machine, milling machine, boring and surfacing machines, oven/cabinet with drying facilities for storing electrodes.
- (v) Office/Workshop facilities: (i) Local office in Hong Kong is required; and (ii) Fabrication yard with the equipment listed above.
- (vi) Others: Satisfactory technical information, method statements and fully documented quality assurance and control system for fabrication and erection of steelwork. Workers must comply with Section 18 of the General Specification for Civil Engineering Works.

The Laws in Relation to the Operation of Trading of Building Material Products

Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong)

The Trade Descriptions Ordinance (the “**Trade Descriptions Ordinance**”) prohibits false trade description, false, misleading or incomplete information, false statements, etc., in respect of goods offered in the course of trade. Therefore, all of the products and supplements sold by the Group are required to comply with the relevant provisions therein.

Section 2 of the Trade Descriptions Ordinance provides, *inter alia*, that “trade description” in relation to goods means an indication, direct or indirect, and by whatever means given, of certain matters (including among other things, quantity, method of manufacture, composition, fitness for purpose, availability, compliance with a standard specified or recognised by any person, price, their being of the same kind as goods supplied to a person, price, place or date of manufacture, production, processing or reconditioning, person by whom manufactured, produced, processed or reconditioned etc), with respect to any goods or parts of the goods; and in relation to services means an indication, direct or indirect, and by whatever means given, of certain matters (including among other things, nature, scope, quantity, fitness for purpose, method and procedures, availability, the person by whom the service is supplied, after-sale service assistance, price etc.).

Section 7 of the Trade Descriptions Ordinance provides that no person shall in the course of trade or business apply a false trade description to any goods or sell or offer for sale any goods with false trade descriptions applied thereto.

Section 7A of the Trade Descriptions Ordinance provides that a trader who applies a false trade description to a service supplied or offered to be supplied to a consumer, or supplies or offers to supply to a consumer a service to which a false trade description is applied, commits an offence.

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Sections 13E, 13F, 13G, 13H and 13I of the Trade Descriptions Ordinance provide that a trader who engages in relation to a consumer in a commercial practice that (a) is a misleading omission; or (b) is aggressive; (c) constitutes bait advertising; (d) constitutes a bait and switch; or (e) constitutes wrongly accepting payment for a product, commits an offence.

A person who commits an offence under sections 7, 7A, 13E, 13F, 13G, 13H or 13I shall be subject, on conviction on indictment, to a fine of HK\$500,000 and to imprisonment for 5 years, and on summary conviction, to a fine at HK\$100,000 and to imprisonment for 2 years.

Trade Marks Ordinance (Chapter 559 of the Laws of Hong Kong)

The Trade Marks Ordinance (the “**Trade Marks Ordinance**”) provides for the registration of trademarks, the use of registered trademarks and connected matters. Hong Kong provides territorial protection for trademarks. Therefore, trademarks registered in other countries or regions are not automatically entitled to protection in Hong Kong. In order to enjoy protection by the laws of Hong Kong, trademarks must be registered with the Trade Marks Registry of the Intellectual Property Department under the Trade Marks Ordinance and the Trade Marks Rules (Chapter 599A of the Laws of Hong Kong) (the “**Trade Marks Rules**”).

According to section 10 of the Trade Marks Ordinance, a registered trademark is a property right acquired through due registration under such ordinance. The owner of a registered trademark is entitled to the rights provided by the ordinance.

The Group is the registered owner and proprietor of the trademarks as set out in the section headed “C. Intellectual Property Rights of the Group” in Appendix V to this prospectus.

By virtue of section 14 of the Trade Marks Ordinance, the owner of a registered trademark is conferred exclusive rights in the trademark. The rights of the owner in respect of the registered trademark come into existence from the date of the registration of the trademark. According to section 48 of such ordinance, the registration date is the filing date of the application for registration.

Subject to the exceptions in section 19 to section 21 of the Trade Marks Ordinance, any use of the trademark by third parties without the consent of the owner is an infringement of the trademark. Conducts which amount to infringement of the registered trademark are further specified in section 18 of the same ordinance.

The owner of the registered trademark is entitled to remedies under the Trade Marks Ordinance once any infringement by third parties occurs, such as infringement proceedings provided for in section 23 and section 25 of the Trade Marks Ordinance.

Trademarks which are not registered under the Trade Marks Ordinance and the Trade Marks Rules may still obtain protection by the common law action of passing off, which requires proof of the owner’s reputation in the unregistered trademark and that use of the trademark by third parties will cause the owner damage.

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Copyright Ordinance (Chapter 528 of the Laws of Hong Kong)

The Copyright Ordinance (the “**Copyright Ordinance**”) currently in force in Hong Kong has come into effect since 27 June 1997. The Copyright Ordinance as reviewed and revised from time to time provides comprehensive protection for recognised categories of literary, dramatic, musical and artistic works, as well as for films, television broadcasts and cable diffusion, and works made available to the public on the internet.

In the course of designing its product packing, the Group may create original artistic works (such as drawings) or literary works (such as text) that qualify for copyright protection. No registration is required. Infringement of copyright is civilly actionable.

Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong)

The Sale of Goods Ordinance (the “**Sale of Goods Ordinance**”) provides, *inter alia*, that where a seller sells goods in the course of a business, there is an implied condition that (a) where the goods are purchased by description, the goods must correspond with the description; (b) the goods supplied are of merchantable quality; and (c) the goods must be fit for the purpose for which they are purchased. Otherwise, a buyer has the right to reject defective goods unless he or she has a reasonable opportunity to examine the goods.

Tortious Duty Under Common Law

Under Common law, distributors, manufacturers, and retailers of products owe a duty of care to consumers and may be liable for damages as a result of defects in goods caused by their negligent acts or for any fraudulent misrepresentation made in the distribution and selling of goods. If a manufacturer, distributor and retailer reasonably believes or knows that the product may be defective, he may have to cease to supply such goods and to give warning and instructions to persons to whom the products are supplied.

Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) — Transfer Pricing

The Inland Revenue Ordinance stipulates that when a non-resident person carries on business with a resident person with whom he is closely connected and the course of such business is so arranged that it produces to the resident person either no profits which arise in or derive from Hong Kong or less than ordinary profits which might be expected to arise in or derive from Hong Kong, the business done by the non-resident person in pursuance of his connection with the resident person shall be deemed to be carried on in Hong Kong, and such non-resident person shall be assessable and chargeable with tax in respect of his profits from such business in the name of the resident person as if the resident person were his agent.

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PRC

Regulatory Requirements in the PRC

The relevant laws and regulations applicable to the operations and business of the Group's subsidiary in the PRC are set out below:

Incorporation, operation and management of wholly foreign owned enterprise (“WFOE”)

The incorporation, operation and management of a company 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 of the PRC (中華人民共和國全國人民代表大會常務委員會) on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005 and 28 December 2013, with the latest amendments taking effect on 1 March 2014. The major amendments include, but are not limited to, cancelling the paid-up capital registration and removing the statutory minimum registered capital requirements and the statutory timeframe for the capital contribution.

The PRC Company Law generally governs two types of companies — limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its creditors is limited to the extent of its property. Liability of shareholders of a limited liability company and a joint stock limited company is limited to the extent of the capital contributions/shares subscribed respectively by them. The PRC Company Law also governs foreign-invested limited liability companies. According to the PRC Company Law, where laws on foreign investment have other stipulations, such stipulations shall apply.

The PRC Laws 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 was amended on 31 October 2000 and the Implementation Rules of the PRC Law on Wholly Foreign Owned Enterprises (《中華人民共和國外資企業法實施細則》) promulgated by the State Council of the PRC (the “**State Council**”) on 12 December 1990 and was subsequently amended on 12 April 2001 and 19 February 2014 govern the establishment procedures, approval procedures, registered capital requirements, foreign exchange control, accounting practices, taxation, employment and all other relevant matters of WFOE.

Any investment conducted by the foreign investors and foreign enterprises in the PRC is subject to the Guidance Catalogue of Industries for the Foreign Investment (《外商投資產業指導目錄》) (the “**Guidance Catalogue**”), the latest version of which was promulgated by the Ministry of Commerce of PRC (“**MOFCOM**”) and the National Development and Reform Commission (國家發展和改革委員會) on 10 March 2015 and came into effect on 10 April 2015. The Guidance Catalogue contains specific provisions guiding market access of foreign capital, with respect to categorizing industries into encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign-invested industries. Foreign investment is permitted for industries not listed in the Guidance Catalogue unless specifically disallowed in other PRC regulations.

Foreign trade

The Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) (the “**Foreign Trade Law**”) was latest amended on 6 April 2004 and took effect from 1 July 2004. Foreign trade mentioned in the Foreign Trade Law refers to the import and export of goods, technologies and international trade in services. According to the Foreign Trade Law, such unfair competition activities as selling the products at unreasonable low prices, colluding with each other in a tender, producing and releasing false advertisements and conducting commercial bribery and others alike are not allowed in foreign trade activities.

Custom

According to the Administrative Provisions of the PRC on Registration of the Customs Declaring Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated by the General Administration of Customs of the PRC on 13 March 2014, a declaring entity shall go through the registration procedures at the customs in accordance with these provisions. Registration of declaring entities shall be divided into the registration of declaring enterprises and the registration of consignees or consignors of imported or exported goods.

Anti-unfair competition

The Law of the PRC for Anti-Unfair Competition (《中華人民共和國反不正當競爭法》) (the “**Anti-Unfair Competition Law**”) was promulgated on 2 September 1993 and took effect from 1 December 1993. According to the Anti-Unfair Competition Law, when trading on the market, operators shall abide by the principles of voluntariness, equality, fairness, honesty and credibility, and observe generally recognised business ethics. And acts of operators which contravene the provisions of the Anti-Unfair Competition Law, with a result of damaging the lawful rights and interests of other operators, and disturbing the socio-economic order shall constitute unfair competition. Operators shall not use money or properties or the other methods to bribe others in order to sell or purchase commodities. It shall be guilty of giving bribe if operators give a secret commission to the other organisations or individuals without the normal accounting records. It shall be guilty of taking bribe, if the organisations or individuals accept the secret discount without normal accounting records. Operators may offer a discount to the others in public, or may pay commission to the middle man in selling or purchasing commodities. However, operators who give discount to the others or pay commission to the middle man, or the others who take the discount or commission shall make accounting records strictly according to the facts.

Where an operator commits unfair competition in contravention of the provisions of the Anti-Unfair Competition Law and causes damage to another operator, it or he shall bear the responsibility for compensating for the damages. Where the losses suffered by the injured operator are difficult to calculate, the amount of damages shall be the profit gained by the infringer during the period of infringement through the infringing act. The infringer shall also bear all reasonable costs paid by the injured operator in investigating the acts of unfair competition committed by the operator suspected of infringing its or his lawful rights and interests.

Labour

Companies in the PRC are subject to the PRC Labour Law (《中華人民共和國勞動法》) (the “**PRC Labour Law**”), the PRC Labour Contract Law (《中華人民共和國勞動合同法》) (the “**PRC Labour Contract Law**”) and the Implementation Regulations of the PRC Labour Contract Law (《中華人民共和國勞動合同法實施條例》), as well as other related regulations, rules and provisions issued by the relevant governmental authorities from time to time. The PRC Labour Contract Law, which became effective on 1 January 2008, imposes stricter requirements with respect to signing of labour contracts with employees, stipulating probation and violation penalties, terminating labour contracts, paying remuneration and economic compensation, use of labour dispatches as well as social security premiums than previously required under the earlier PRC Laws and regulations. The PRC Labour Contract Law was further amended on 28 December 2012, and such amendments became effective on 1 July 2013.

According to the PRC Labour Law and the Labour Contract Law, companies in the PRC must enter into labour contracts if they are to establish labour relationships with the employees. Companies must pay wages that are no lower than the local minimum wage standards to such employees. Companies are also required to establish labour safety and sanitation systems, strictly abide by PRC rules and standards and provide relevant training to the employees.

According to the Provisions on the Prohibition of Using Child Labor (《禁止使用童工規定》) which was promulgated on 1 October 2002 and came into effect on 1 December 2002, the employers must verify the identification cards of the personnel to be employed when employing personnel and shall not employ any minor under 16 years old.

Social insurance law and housing provident administrative regulations

The PRC social insurance system is mainly governed by the Social Insurance Law of the PRC (the “**Social Insurance Law**”) (《中華人民共和國社會保險法》). The Social Insurance Law was promulgated on 28 October 2010 and came into effect on 1 July 2011. According to Social Insurance Law, employers in the PRC shall conduct registration of social insurance with the competent authorities, and make contributions to the five basic types of social insurance for their employees, namely, basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance.

According to the Administrative Regulations on Housing Provident Funds (《住房公積金管理條例》) which were promulgated by State Council, came into effect on 3 April 1999 and were amended on 24 March 2002, all business entities (including foreign investment enterprises) are required to register with the local administrative centre of housing provident funds and then maintain housing fund accounts with designated banks and pay the related funds for their employees.

Foreign exchange

Foreign exchange control in the PRC is mainly regulated by the Regulations of the PRC on the Management of Foreign Exchange (《中華人民共和國外匯管理條例》), which were promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996, and were amended on 14 January 1997 and 5 August 2008. According to the aforesaid regulations, the RMB

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payments under current accounts (such as foreign exchange transactions in relation to trading and service and the dividends payment) can be exchanged into foreign currency at liberty, but the exchange of the RMB under capital accounts (such as direct investment, loan or stock investment outside the PRC) into foreign currency shall first require approval from the foreign exchange administration.

Foreign exchange registration

On 14 July 2014, the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) (the “SAFE”) promulgated the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Overseas Investment and Financing and in Return Investment via Special Purpose Companies (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular No. 37”). According to the SAFE Circular No. 37, if a PRC domestic resident wants to use an overseas special purpose vehicle (“SPV”) (i.e. an overseas enterprise directly or indirectly controlled by the domestic resident for the purpose of investment or financing for the assets or interests legally held by him in a PRC domestic enterprise or outside China) to conduct return or direct investment in the PRC, the domestic resident shall bring the prescriptive materials to the local branch of SAFE to apply for foreign exchange registration of overseas investments.

As each of the ultimate individual shareholders of Company’s PRC subsidiaries is a permanent resident in Hong Kong who holds an overseas passport, which does not fall within the scope of investments in PRC by an SPV as stipulated in the SAFE Circular No. 37, the Group’s PRC Legal Advisers are of the view that the SAFE Circular No. 37 does not apply to the ultimate individual shareholders of the Group.

Taxation

Enterprise income tax

According to the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) (the “EIT Law”) promulgated on 16 March 2007 and came into effect on 1 January 2008, the income tax rate for both domestic and foreign-invested enterprises is 25%.

Pursuant to the EIT Law, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered as “resident enterprises” and subject to the uniform 25% enterprise income tax rate for their global income.

The EIT Law also provides that the enterprise income tax should be levied at the reduced rate of 20% for qualified “small and thin-profit enterprises”, and the enterprise income tax should be levied at the reduced rate of 15% for “High and New Technology Enterprises” in key industries by the PRC.

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Income tax on share transfer

Pursuant to the Notice of the State Administration of Taxation on Strengthening the Administration of Enterprise Income Tax on Gain Derived from Equity Transfer Made by Non-Resident Enterprise (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知, the “**Notice 698**”) promulgated by the State Administration of Taxation (中華人民共和國國家稅務總局) (the “**SAT**”) and came into effect from 1 January 2008, and the Announcement of the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告, the “**Announcement No. 7**”) promulgated by SAT and came into effect on 3 February 2015, where a non-resident enterprise indirectly transfers properties such as equity in Chinese resident enterprises without any reasonable commercial purposes with the aim of avoiding to pay enterprise income tax, such indirect transfer shall be reclassified as a direct transfer of equity in Chinese resident enterprise in accordance with Article 47 of the EIT Law. Indirect transfer of Chinese taxable properties shall mean transactions of non-resident enterprises which are carried out through transfer of equity of enterprises abroad that directly or indirectly hold Chinese taxable properties (not including the Chinese resident enterprises registered abroad, hereinafter referred to as “enterprises abroad”) and other similar equities (hereinafter referred to as “equity”) and cause the concrete results same as or similar to that of direct transfer of Chinese taxable properties, including the circumstance that the restructuring of non-resident enterprises causes changes of shareholders of enterprises abroad. Non-resident enterprises that indirectly transfer Chinese taxable properties are referred to as equity transferor.

According to the Announcement No. 7, indirect transfer of Chinese taxable properties that meets all of the following conditions shall be deemed as having a reasonable commercial purpose: (1) the equity relationship of the parties involved in the transfer falls under one of the following circumstances: (i) equity transferor directly or indirectly owns more than 80% of the equity of the equity transferee; (ii) equity transferee directly or indirectly owns more than 80% of the equity of the equity transferor; or (iii) more than 80% of the equity of both equity transferor and equity transferee is owned by the same party. If more than 50% (not including 50%) of the value of the equity of an enterprise abroad is directly or indirectly from the real estate in the territory of China, the proportion in items (i), (ii) and (iii) of Paragraph 1 of this article shall be 100%. The aforesaid equity indirectly held shall be calculated based on the product of the shareholding ratios of all enterprises in the shareholding chain; (2) compared with the same or similar indirect transfer occurred without this indirect transfer, the burden of taxation in China will not be reduced on the indirect transfer that may occur again after this indirect transfer; and (3) equity transferee pays all the equity transfer consideration with its equity or equity of enterprises controlled by it (not including equity of listed enterprises).

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Value-added tax

According to the Provisional Regulations Concerning Value-Added Tax (“VAT”) of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the State Council on 13 December 1993, which were subsequently amended on 10 November 2008 with the amendments taking effect on 1 January 2009:

- A. All entities and individuals engaged in (i) the sales of goods, (ii) the provision of processing, repairs and replacement services and (iii) the importation of goods within the PRC are taxpayers of VAT, and shall pay VAT in accordance with these regulations.
- B. Except as stipulated in these regulations, for taxpayers engaged in the aforesaid services (“**Selling Goods or Taxable Services**”), the VAT payable shall be the balance of output tax payable for the period after deducting the input tax for the period. The formula for computing the tax payable is as follows: Tax payable = Output tax payable for the period – Input tax for the period.
- C. For taxpayers engaged in Selling Goods or Taxable Services, the output tax shall be the VAT payable calculated based on the sales amounts, tax rates prescribed in these regulations and amount collected from the purchasers. The formula for computing the output tax is as follows: Output tax = Sales amount × VAT rate.
- D. VAT rates: For taxpayers selling or importing goods, other than those stipulated in these regulations, the VAT rates shall be 17%. For taxpayers exporting goods, the VAT rate shall be 0%, except as otherwise stipulated by the State Council. For taxpayer providing processing, repairs and replacement services, the VAT rate shall be 17%.

PRC custom duties

According to the Customs Law of the PRC (《中華人民共和國海關法》) which was promulgated on 22 January 1987, and came into effect on 1 July 1987 and amended on 29 June 2013 and 28 December 2013, the consignee of the imports, the consignor of exports and the owners of the imports and exports are obligated to pay custom duties. The Custom is the authority in charge of the collection of custom duties.

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

Withholding tax on dividends

According to the EIT Law and the Implementation Rules of the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》), non-resident enterprises which have not set up institutions or premises in the PRC, or where the institutions or premises are set up but its subsidiary’s after-tax income has no actual relationship with such institutions or premises shall be

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subject to the withholding tax of 10% on income derived from the after-tax profit of its subsidiary. According to the Arrangements between the Mainland of the PRC and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion With Respect to Taxes On Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》), profit derived by a foreign investor residing in Hong Kong from PRC enterprise in which such foreign investor owns directly at least 25% equity interest is subject to the tax rate of 5% after obtaining the approval from the relevant tax bureau.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated by the SAT and became effective on 20 February 2009, all of the following requirements shall be satisfied for a party to a tax agreement to be entitled to the tax rate specified in the tax agreement for dividends paid to it by a PRC resident company: (i) such a fiscal resident who obtains dividends should be the company as provided in the tax agreement; (ii) owner's equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the PRC domestic company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, shall reach the percentage specified in the tax agreement.

According to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (《非居民享受稅收協定待遇管理辦法(試行)》) (the “**Administrative Measures**”), which came into force on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) receives dividends from a PRC resident enterprise and wishes to enjoy the favourable tax benefits under the tax arrangements, it shall submit an application for approval to the relevant tax authority. Without such approval, the non-resident enterprise may not enjoy the favourable tax treatments provided in the tax agreements.

Intellectual property

The products in the PRC shall be subject to intellectual property laws, which include the Copyright Law of the PRC (《中華人民共和國著作權法》), the Patent Law of the PRC (《中華人民共和國專利法》) (the “**Patent Law**”) and the Trademark Law of the PRC (《中華人民共和國商標法》) (the “**Trademark Law**”).

According to the Trademark Law, which was promulgated on 23 August 1982 and amended on 22 February 1993, 27 October 2001 and 30 August 2013 respectively, any of the following acts is an infringement upon the right to exclusive use of a registered trademark: (i) using a trademark which is identical with the registered trademark on the same kind of commodities without a license from the registrant of that trademark; (ii) using a trademark which is similar to the registered trademark on the same kind of commodities, or using a trademark which is identical with or similar to the registered trademark on the similar commodities and mislead the public without a license from the registrant of that trademark; (iii) selling the commodities that infringe upon the right to exclusive use of a registered trademark; (iv) forging, manufacturing without authorisation the marks of a registered trademark, or selling the marks of a registered trademark forged or manufactured without authorisation; (v) changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of

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that trademark; (vi) deliberately provide convenient conditions and help with the acts of infringement upon the right to exclusive use of a registered trademark; and (vii) causing other damages to the right to exclusive use of a registered trademark of another person.

Regulations on Domain Names

The Measures for the Administration of Domain Names for the Chinese Internet (《中國互聯網絡域名管理辦法》) were promulgated by the Ministry of Information Industry on 5 November 2004 and became effective on 20 December 2004. The aforementioned measures regulate the registration of domain names in China with the internet country code of “.cn”. The Measures on Domain Names Dispute Resolution (《中國互聯網絡信息中心域名爭議解決辦法(2012年修訂)》) were promulgated by the Chinese Internet Network Infrastructure Centre on 28 May 2012 and became effective on 28 June 2012. The aforementioned measures require domain name disputes to be submitted to institutions authorised by the Chinese Internet Network Information Centre for resolution.

Mergers and acquisitions rules

On 8 August 2006, the MOFCOM, the PRC Securities Regulatory Commission (中國證券監督管理委員會) (the “CSRC”), the SAFE and three other PRC authorities promulgated Rules on the Mergers and Acquisitions of Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”), which came into effect on 8 September 2006 and were revised on 22 June 2009.

Foreign investors should comply with the M&A Rules when they purchase shareholding equities of a domestic non-foreign-funded enterprise or subscribe to the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign investment enterprise; or when the foreign investors establish a foreign investment enterprise (“FIE”) in PRC and obtain the asset of a domestic company and operate the asset, or purchase the asset of a domestic company and establish a FIE to operate the asset. According to the M&A Rules, a SPV shall mean an offshore company directly or indirectly controlled by a domestic company or PRC residents for the purpose of listing overseas with the equity interests of a domestic company actually owned by such company or individuals, and the overseas listing of a SPV shall be subject to approval from CSRC and MOFCOM.

As each of the ultimate individual shareholders of the Company’s PRC subsidiary is a permanent resident in Hong Kong who holds an overseas passport, and the Company and its subsidiaries incorporated outside PRC do not fall within the scope of being classified as a SPV directly or indirectly established or controlled by PRC entities or individuals stipulated in the M&A Rules, the Group’s PRC Legal Advisers are of view that the M&A Rules do not apply to the restructuring exercise or the proposed Listing, and the Group is not required to obtain approvals from CSRC or MOFCOM.