

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Our business operations are subject to extensive supervision and regulation from the PRC government. This section sets out (i) an introduction to the major PRC government authorities with jurisdiction over our current operations and (ii) a summary of the main laws, regulations and policies with which we must comply.

RELEVANT PRC GOVERNMENT AUTHORITIES

The National People's Congress and its Standing Committee

The National People's Congress is the highest power authority of the PRC and is responsible for enacting the basic laws of the PRC, including the laws relating to property management. The Standing Committee of the National People's Congress is the standing body of the National People's Congress.

The State Council

The State Council is the highest executive and administrative organ of the PRC. It is in charge of examining, approving and overseeing the healthy and steady development of all material investment projects in the PRC, including projects relating to the property management sector.

The NDRC

The NDRC formulates and implements industry policies and investment directions for national economic and social development.

The MOHURD

The MOHURD is responsible for granting the qualification certificate for property management.

The MOFCOM

The MOFCOM is responsible for formulating the development strategies, guidelines and policies of domestic and foreign trade and international economic cooperation, drafting laws and regulations governing domestic and foreign trade, consumer protection, market competition and foreign investments, and negotiating bilateral and multilateral trade agreements.

THE MPS

The MPS is the administrative organ of the State Council for nationwide public security. It is responsible for formulating the strategies, policies and laws relating to public security, including parking regulations.

The MHRSS

The MHRSS is the administrative organ of the State Council of human resource and social security. It is responsible for formulating the strategies, policies, laws and regulations relating to human resource and social security.

The SAT

The SAT is the administrative organ of the State Council of tax. It is responsible for formulating the strategies, policies, laws and regulations relating to tax.

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THE MOF

The MOF is the administrative organ of the State Council of finance and accounting. It is responsible for formulating the strategies, polices, laws and regulations relating to finance and accounting.

The PBOC

The PBOC is the administrative organ of the State Council of finance and accounting. It is responsible for formulating the strategies, polices, laws and regulations relating to finance and accounting.

The SAFE

The SAFE is the administrative organ of the State Council of exchange management. It is responsible for formulating the strategies, polices, laws and regulations relating to exchange management.

The CSRC

The CSRC is the administrative organ of the State Council of stocks and other derivatives. Its primary responsibilities are to formulate relevant strategies, polices, laws and regulations relating to securities and the securities market.

THE SAIC

The SAIC is the administrative organ of the State Council. Its main duty is to concentrate on market inspection and administrative enforcement. The SAIC is responsible for formulating the strategies, polices, laws and regulations relating to market inspection and administrative enforcement.

The MIIT

The MIIT is the administrative organ of the State Council of industry and information. It is responsible for formulating the strategies, polices, laws and regulations relating to industry and information technology.

LEGAL SUPERVISION OVER THE PROPERTY MANAGEMENT SECTOR IN THE PRC

Foreign-invested Property Management Enterprises

According to the Provisions on Guiding the Orientation of Foreign Investment (《指導外商投資方向規定》) (Order No.346 of the State Council) (the “**Foreign Investment Orientation Provision**”), which was promulgated by the State Council on February 11, 2002 and came into effect on April 1, 2002, projects with foreign investment shall fall into four categories, namely encouraged, permitted, restricted and prohibited. The encouraged, restricted and prohibited projects with foreign investment shall be listed in the Catalogue of Industries for Guiding Foreign Investment (2011 version) (《外商投資產業指導目錄》(2011年修訂)) (the “**Catalogue**”), while any project not listed in the Catalogue is deemed to be a permitted project for foreign investment.

According to the Catalogue, which was jointly amended by the NDRC and the MOFCOM on December 24, 2011 and came into effect on January 30, 2012, the property management industry falls into the category of industries in which foreign investment is permitted. Foreign-invested property management enterprises are permitted to be incorporated as a Sino-foreign equity joint venture, Sino-foreign cooperative joint venture or wholly foreign owned

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enterprise in accordance with the Catalogue and other relevant requirements of the laws and administrative regulations regarding foreign-invested enterprises. Foreign invested property management enterprises shall obtain approvals from the competent commercial authority and obtain the Approval Certificate for Foreign-invested Enterprise prior to their registration with the local Administration for Industry and Commerce.

The Qualification of Property Management Enterprises

According to the Regulation on Property Management (《物業管理條例》) (Order No.379 of the State Council), which was promulgated by the State Council on June 8, 2003, and came into effect on September 1, 2003 and was amended on August 26, 2007, a qualification system for enterprises engaging in property management activities has been adopted. According to the Measures for the Administration on Qualifications of Property Management Enterprises (《物業管理企業資質管理辦法》) (Order No.125 of the MOHURD) (the “**Property Management Enterprises Qualification Measure**”), which was promulgated by the MOHURD on March 17, 2004, came into effect on May 1, 2004 and was amended on November 26, 2007, a newly established property management enterprise shall, within 30 days from the date of the receipt of its business license, apply for the property management qualification to the competent real estate administration department of the people’s government of the municipalities directly under the PRC government or cities divided into districts in the locality of its industry and commerce registration. The competent departments of qualification examination and approval shall review the qualification and issue property management qualification certificates to the property management enterprises which meet the conditions for the corresponding qualification class.

According to the Property Management Enterprises Qualification Measure, the qualifications of a property management enterprise shall be classified into first, second and third classes. For the different classes of the qualification, the Property Management Enterprises Qualification Measure has laid out specific criteria for each class. Applicants have to meet detailed requirements in relation to their (i) registered capital; (ii) number of professional employees; (iii) types of properties managed; and (iv) areas of different types of properties managed. The competent construction administration department of the State Council shall be responsible for the issuance and administration of the first class qualification certificate of the property management enterprises. The competent construction administration departments of the people’s government of provinces and autonomous regions shall be responsible for the issuance and administration of the second class qualification certificate of the property management enterprises, and the competent construction administration departments of the people’s governments of municipalities directly under the central government shall be responsible for the issuance and administration of the second and the third class qualification certificate of the property management enterprises. The competent construction administration departments of the people’s government of the cities divided into districts shall be responsible for the issuance and administration of the third class qualification certificate of the property management enterprises.

Property management enterprises with the first class qualification are permitted to undertake any real estate management projects. The property management enterprises with the second class qualification are permitted to undertake the real estate management of residential projects under 300,000 sq.m. and non-residential projects under 80,000 sq.m. The property management enterprises with the third class qualification are permitted to undertake the real estate management of residential projects under 200,000 sq.m. and non-residential projects under 50,000 sq.m. Property management enterprises must undergo annual inspections to maintain qualifications.

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If property management enterprises do not obtain the qualification certificates for property management enterprises, or if the projects they undertake exceed the operation scope of their qualification grade, the property management enterprises may be ordered to surrender any income unlawfully earned from such activities and pay a fine.

Appointment of the Property Management Enterprise

According to the Law on Property (《物權法》) (Order No.62 of the President of the PRC), which was promulgated by the National People's Congress on March 16, 2007 and came into effect on October 1, 2007, property owners can either manage the buildings and the ancillary facilities by themselves, or entrust the matter to a property management enterprise or other custodians. Property owners are entitled, according to the laws, to replace the property management enterprise or other custodians employed by the developer. Property management enterprises or other custodians shall manage the buildings and the ancillary facilities within the district of the building as entrusted by the owners, and shall be subject to the supervision by the owners.

According to the Regulation on Property Management, a general meeting of the property owners in a property can engage or dismiss the property management enterprise with affirmative votes of owners who exclusively own more than half of the total construction area of the building(s) and who account for more than half of the total number of the property owners. Before the formal engagement with a property management enterprise by a general meeting of the owners, a written initial service contract shall be signed between the construction institutions (for example, a property development enterprise) and a property management enterprise. The property management contract sets out the terms according to which the property management enterprise undertakes to repair, maintain and manage of the all installations and equipment within the relevant buildings and ancillary areas. The initial service contract shall be terminated once a property management contract is signed between the property owners' associations and the property management enterprise.

According to the Temporary Measures on the Tendering and Bidding for Initial Property Management Services (《前期物業管理招標投標管理暫行辦法》) (Jian Zhu Fang 2003 No. 130), which was promulgated by the MOHURD on June 26, 2003 and came into effect on September 1, 2003, initial property management services shall be conducted by the property management enterprise employed by the developer before any property management enterprise has been engaged by the property owners and owners' association. The developer of residential buildings and non-residential buildings located in the same property management areas shall engage the property management enterprises of the same and corresponding qualification through the process of tendering and bidding. Developers shall establish a bid evaluation committee consisting of an odd number of five or more members, at least two thirds of whom shall be property management experts who are not representatives of the developer issuing the tender. The property management experts shall be selected on a random basis from a list of experts compiled by the local real estate administrative department. In cases where there are less than three bidders or the property is of minor scale, upon the approval of the competent real estate administration department of people's government of the district and county in the locality of the property, the developer of the property may engage a property management enterprise directly through a contract.

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Fees Charged by Property Management Enterprises

According to the Measures on the Charges of Property Management Enterprise (《物業服務收費管理辦法》) (Fa Gai Jia Ge 2003 No.1864), which was jointly promulgated by the NDRC and the MOHURD on November 13, 2003 and came into effect on January 1, 2004, property management enterprises are permitted to charge fees from property owners for the maintenance, conservation and management of properties, ancillary facilities and related grounds, and the maintenance of the environmental health and order of relevant areas according to relevant property management contracts.

The competent price administration department and construction administration department of the State Council shall be jointly responsible for the supervision over and administration of the fees charged by property management enterprises nationwide. The competent price administration departments of the people's government above county level and the competent property administration departments of the same level shall be jointly responsible for the supervision over and administration of the fees charged by property management enterprises in their respective administrative regions.

The fees charged by property management enterprises shall be based on both government guidance prices and market-regulated prices on the basis of the nature and features of properties of various kinds. The specific pricing principles shall be determined by the competent price administration departments and property administration departments of the people's governments of each province, autonomous region and municipality directly under the central government.

As agreed between the property owners and property management enterprise, the fees for the property management services can be charged either as a lump sum of all property management fees collected, in which case the property owners pay fixed property management fees to the property management enterprise who shall enjoy or assume all the profits or losses as its own risk, or a fixed percentage of the property management fees collected, in which case the property management enterprise may collect its service fees in the proportion or amount as agreed from the property management income in advance, the rest of which shall be exclusively used on the items as stipulated in the property management contract, and property owners shall enjoy or assume the surplus or shortage.

Property management enterprises shall charge service fees at an expressly marked price in accordance with the regulations of the competent price administration departments of the people's government, and display its service items and standards, charged items and standards and other related contents on the noticeable positions in the management areas publicly.

According to the Regulation on Property Management Service Fee with Clear Price Tag (《物業服務收費明碼標價規定》) (Fa Gai Jia Jian 2004 No.1428), which was promulgated by the NDRC and the MOHURD on July 19, 2004 and came into effect on October 1, 2004, property management enterprises, during their provision of services to the property owners (inclusive of the property service as stipulated in the property management contract as well as other services requested by property owners), shall charge service fees at expressly marked prices, and display their service items, standards and other related contents. In case there is any change to the pricing standard, the property management enterprise shall adjust the related contents displayed and indicate the execution date of new standards one month prior to the implementation of the new standards.

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If property management enterprises do not adopt the government guidance prices according to the regional regulations, they may be ordered to surrender any income unlawfully earned from such activity, pay a fine, or in a serious case cease their business operations until their non-compliance has been rectified.

Supervision over Pricing Costs by Property Management Service Providers

According to the Measures on the Supervision over Pricing Costs by Property Management Service Providers (Trial) (《物業服務定價成本監審辦法(試行)》) (Fa Gai Jia Ge 2007 No.2285), which was promulgated by the NDRC and the MOHURD on September 10, 2007 and came into effect on October 1, 2007, the pricing cost of property management services is based on the average cost of property management services evaluated by the competent price administration department of people's government. The competent price administration department of the people's government is responsible for the supervision over and investigation of the pricing cost of property management services with the assistance of the competent property administration department of people's government. Property management service pricing costs shall consist of the staff costs, the daily operation and maintenance costs of the common parts and facilities of the property, gardening maintenance costs, sanitation and hygiene costs, security maintenance costs, insurance costs for the common parts, facilities and public liability, office expenses, management costs apportionment, depreciation for fixed assets and other costs agreed to by the property owners.

According to the Measures on the Special Fund for Residence Maintenance (住宅專項維修資金管理辦法) ((Order No.165 of the MOHURD and the MOF), which were jointly promulgated by the MOHURD and the MOF on December 4, 2007 and came into effect on February 1, 2008, a special fund shall be established for the maintenance, alteration and renovation of residential properties to be used after the expiration of the guarantee period for all communal areas, facilities and equipment of such residential properties. Residence maintenance funds shall be deposited into a special account under separate management by property owners and subject to governmental supervision. The amount an individual property owners is required to contribute to the fund shall be determined with reference to the floor area of the property owners' residence, the age of the property and the specific standards set by relevant local real estate authorities. Funds are entrusted to the local real estate authority until such time as they can be transferred to an account designated by the property owners' association upon its establishment. Residence maintenance funds are held separately, must not be appropriated for improper purposes and must be used strictly in compliance with designated procedures.

Administrations on Parking Lots

According to the Guidance on the Planning, Construction and Management of Urban Parking Facilities (《關於城市停車設施規劃建設及管理的指導意見》) (Jian Cheng 2010 No.74), which was jointly promulgated by the MOHURD, the MPS and the NDRC and came into effect on May 19, 2010, a licensed management system with market access and exit standards shall be adopted by the open, fair and equitable selection of professional urban parking service enterprises.

According to the Measures on Parking Service Fees for Vehicles (《機動車停放服務收費管理辦法》) (Ji Jia Ge 2000 No.933), which was promulgated by the NDRC on July 14, 2000 and came into effect on September 1, 2000, the competent price administration departments of the people's government above the county level shall be responsible for the management of the charges for parking service fees for vehicles.

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Parking service fees for vehicles are determined under three basic pricing principles including market-regulated pricing, government guided pricing and government pricing. The specific pricing shall be determined by the price administration departments of the people's government of each province, autonomous region and municipality directly under the central government on the basis of the number of vehicles and the supply-demand relationship of parking service in their respective administrative regions. Open parking lots and underground parking lots in residential areas shall follow the government guided pricing and government pricing, while parking lots of hotels and office buildings shall follow market-regulated prices.

The formulation or adjustment of standards for parking service fees adopting government guided pricing or government pricing shall be applied by the operators of the parking lots and approved by the competent price administration department of the people's government in its locality.

Parking service fees shall be charged at expressly marked prices. The operator shall display the price notice in a noticeable position in the parking lot and toll gates, indicating the type of vehicles, service items, charging units and standards and telephone numbers for complaints and information in order to be supervised by members of the public.

Judicial Interpretation

The Interpretations on Several Issues relating to the Specific Application of Laws on the Hearing of Property Management Service Disputes(《關於審理物業服務糾紛案件具體應用法律若干問題的解釋》) (Fa Shi 2009 No.8), which was promulgated by the Supreme People's Court on May 15, 2009 and came into effect on October 1, 2009, provides the identification principles applied by the court when hearing disputes on specific matters between property owners and property management enterprises. Subject to The Interpretations on Several Issues relating to the Specific application of Laws on the Hearing of Property Management Service Disputes, the property management contracts entered into by property developers or property owners' association on behalf of property owners according to the related regulations are legally binding on property owners, and the court shall not support if property owners plead for the cause of not being a contract party. Furthermore, the court shall support if property owners' association or property owners appealed for the court to confirm the clauses of property management contracts which exempt the responsibility of property management enterprise, and aggravate the responsibility or exempt the rights of property owners' association or property owners invalid.

LEGAL SUPERVISION OVER ENTERPRISES ENGAGED IN REPAIR AND MAINTENANCE SERVICES IN THE PRC

Enterprises engaged in the installation, alteration, repair and daily maintenance of electromechanical special equipment such as elevators must obtain a License for the Installation, Alteration, Repair & Maintenance of Special Equipment (特種設備安裝改造維修許可證), and enterprises engaged in the daily maintenance of elevators must obtain an Elevator Maintenance License. The Licensing Rules on the Installation, Alteration and Repair of Electromechanical Special Equipments (For Trial Implementation) (《機電類特種設備安裝改造維修許可規則(試行)》), (the "**Licensing Rules**") provide specific requirements for license applicants and detailed procedures regarding the application, acceptance, review and issuance of the license. Applicants that meet all requirements may file an application with the safety supervision authorities for special equipment at the provincial or municipal levels and obtain the relevant license after acceptance and investigation by the competent review agency. Enterprises shall conduct their business in accordance with the requirements stipulated in the Licensing Rules and may be subject to administrative penalties for any violation thereof.

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Pursuant to the Regulations on the Management of Safety Technology in Guangdong Province (《廣東省安全技術防範管理條例》) (the “**Regulations on Safety Technology**”) and its implementation measures, the competent public security authorities shall classify enterprises engaged in the design, construction and maintenance of safety technology systems into one of four grades based on (i) the number of safety technology systems completed in the last three years, (ii) the management team, (iii) the technical staff, (iv) the number of employees holding a Certificate of Safety Technology System, and (v) the registered capital of the enterprise. The design plans of safety technology systems for construction projects and the design plans of wired or wireless safety technology systems for retro-fitting to existing buildings must be approved by the competent safety technology division of the public security authority above the county level and such safety technology systems must be checked and accepted by the governmental authority one month after commencement of trial operations and before any such safety technology system has been put into full operation. The Regulations on Safety Technology and its implementation measures also set out legal liabilities that enterprises engaged in the design, construction and maintenance of safety technology systems shall assume in the case of any the violation of the regulations.

LEGAL SUPERVISION OVER TELECOMMUNICATIONS SERVICES IN THE PRC

The Qualification for Telecommunications Services

The Telecommunications Regulations (《電信條例》) (Order No.291 of the State Council), which were promulgated by the State Council on September 25, 2000, draw a distinction between “basic telecommunication services” and “value-added telecommunication services.” Internet content provision services, or ICP services, belong to a subcategory of value-added telecommunications services. Under the Telecommunications Regulations, commercial operators of value-added telecommunications services must first obtain an operating license from the MIIT or its provincial level counterparts.

The Administrative Measures on Telecommunications Business Operating License (《電信業務經營許可管理辦法》) (Order No.5 of the MIIT), or the Telecom License Measures, which were promulgated by the MIIT on March 1, 2009, set forth the types of licenses required to operate value-added telecommunications services and the qualifications and procedures for obtaining operating licenses. For example, an ICP operator providing value-added services in multiple provinces is required to obtain an inter-regional license, whereas an ICP operator providing the same services in one province is required to obtain a local license.

Our PRC legal advisor has advised that the community leasing, sales and other services provided by Shenzhen Colour Life Network Service through the Colour Life website constitute value-added telecommunications services. To comply with these PRC laws and regulations, Shenzhen Caizhiyun Network, our ICP operator, holds the necessary ICP licenses.

If an enterprise engages in value-added telecommunication services without first obtaining an ICP license, the enterprise may be ordered to redress such violation, surrender any income unlawfully earned from such activity, pay a fine, or in a serious case cease its business operations until its non-compliance has been rectified.

Foreign Investment in Value-Added Telecommunications Businesses

According to the Administrative Rules for Foreign Investment in Telecommunications Enterprises (《外商投資電信企業管理規定》) (Order No.534 of the State Council), which were promulgated by the State Council on December 11, 2001, came into effect on January 1, 2002

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and was amended on September 10, 2008, a foreign investor may hold no more than a 50% equity interest in a value-added telecommunications services provider in China and such foreign investor must have experience in providing value-added telecommunications services overseas and maintain a good track record.

According to the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (《關於加強外商投資經營增值電信業務管理的通知》) (the “**Circular**”), which was promulgated by the MIIT (formerly known as the Ministry of Information Industry) in July 2006, foreign investors shall set up foreign-invested enterprises and obtain ICP Licenses to invest in telecommunications businesses or conduct any commercial ICP business in China. Under this Circular, a domestic company that holds an ICP License is prohibited from leasing, transferring or selling the license to foreign investors in any form and from providing any assistance, including providing resources, sites or facilities to foreign investors that conduct unlicensed value-added telecommunications businesses in China. Furthermore, certain relevant assets, such as the relevant trademarks and domain names that are used in the value-added telecommunications business must be owned by the local ICP License holder or its shareholders. This Circular further requires each ICP License holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunications service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations. If an ICP License holder fails to comply with the requirements in this Circular and fails to remedy such non-compliance within a specified period of time, the MIIT or its local counterparts have the discretion to take administrative measures against such license holder, including revoking its ICP License.

Internet Information Services and Content

According to the Measures on Internet Information Services (《互聯網信息服務管理辦法》) (Order No.292 of the State Council), which were promulgated by the State Council on September 25, 2000 and revised on January 8, 2011, entities engaged in the provision of Internet information services within the PRC shall obtain either (i) an ICP License issued by the MIIT or its local bureau, if the services in question are regarded as “commercial Internet information services”; or (ii) an ICP filing with the local MIIT bureau, if the services in question are regarded as “non-commercial services.” The former refers to “information, web page creation and other services provided to Internet users via the Internet for consideration,” while the latter refers to “services that provide information of a publicly available and accessible nature to Internet users via the Internet for gratis.” If an Internet information service provider fails to obtain an ICP License or make an ICP filing, the relevant local branch of the MIIT may levy fines, confiscate its income or even block its website. The concepts of commercial and non-commercial Internet information services are stipulated generally and hence leave much room for interpretation by the local MIIT bureau in its approval practice.

The Measures on Internet Information Service further specify that Internet content providers are prohibited from providing services beyond that included in the scope of their business license or other required licenses or permits, and clearly specify a list of prohibited contents. Internet content providers must monitor and control the information posted on their websites. If any prohibited content is found, they must remove the offending content immediately, keep a record and report to the relevant authorities.

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LEGAL SUPERVISION OVER LABOR PROTECTION IN THE PRC

According to the Labor Law of the PRC (《中華人民共和國勞動法》) (Order No.28 of the President) (the “**Labor Law**”), which was promulgated by the Standing Committee of the National People’s Congress on July 5, 1994, came into effect on January 1, 1995 and was amended on August 27, 2009, an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labor safety and health system, stringently implement national protocols and standards on labor safety and health, conduct labor safety and health education for workers, guard against labor accidents and reduce occupational hazards. Labor safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labor protection gear that complies with labor safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Laborers engaged in special operations shall have received specialized training and obtained the pertinent qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

The Labor Contract Law (《勞動合同法》) (Order No.65 of the President), which was promulgated by the SCNPC on June 29, 2007, came into effect on January 1, 2008, and was amended on December 28, 2012, and the Implementation Regulations on Labor Contract Law (《勞動合同法實施條例》) (Order No.535 of the State Council), which was promulgated on September 18, 2008 and became effective since the same day, regulate both parties through a labor contract, namely the employer and the employee, and contain specific provisions involving the terms of the labor contract. It is stipulated under the Labor Contract Law and the Implementation Regulations on Labor Contract Law that a labor contract must be made in writing. An employer and an employee may enter into a fixed-term labor contract, an un-fixed term labor contract, or a labor contract that concludes upon the completion of certain work assignments, after reaching agreement upon due negotiations. An employer may legally terminate a labor contract and dismiss its employees after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Labor contracts concluded prior to the enactment of the Labor Law and subsisting within the validity period thereof shall continue to be honored. With respect to a circumstance where a labor relationship has already been established but no formal contract has been made, a written labor contracts shall be entered into within one month from the effective date of the Labor Contract Law.

According to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), the Regulations on Work Injury Insurance (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》) and the Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), enterprises in the PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Law on Social Insurance (《社會保險法》) (No.35 of the President), which was promulgated on October 28, 2010 and became effective on July 1, 2011, has consolidated pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

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According to the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》) (Order No.262 of the State Council), which was promulgated and became effective on April 3, 1999, and was amended on March 24, 2002, housing provident fund contributions by an individual employee and housing provident fund contributions by his or her employer shall belong to the individual employee.

The employer shall timely pay up and deposit housing provident fund contributions in full amount and late or insufficient payments shall be prohibited. The employer shall process housing provident fund payment and deposit registrations with the housing provident fund administration center. With respect to companies who violate the above regulations and fail to process housing provident fund payment and deposit registrations or open housing provident fund accounts for their employees, such companies shall be ordered by the housing provident fund administration center to complete such procedures within a designated period. Those who fail to process their registrations within the designated period shall be subject to a fine ranging from RMB10,000 to RMB50,000. When companies breach these regulations and fail to pay up housing provident fund contributions in full amount as due, the housing provident fund administration center shall order such companies to pay up within a designated period, and may further apply to the People's Court for mandatory enforcement against those who still fail to comply after the expiry of such period.

LEGAL REGULATIONS OVER TAX IN THE PRC

Income Tax

According to the EIT Law, which was promulgated by the National People's Congress on March 16, 2007 and came into effect on January 1, 2008, and the Implementation Regulations on the Enterprises Income Tax Law (《企業所得稅法實施條例》), which was promulgated by the State Council on December 6, 2007 and came into effect on January 1, 2008, a uniform income tax rate of 25% will be applied to PRC enterprises, foreign-invested enterprises and foreign enterprises which have established production and operation facilities in the PRC. These enterprises are classified as either resident enterprises or non-resident enterprises.

According to the EIT Law and its implementing regulations, PRC withholding tax at the rate of 10% is applicable to dividends payable to investors that are non-resident enterprises (who do not have an establishment or place of business in the PRC, or that have such establishment or place of business but to whom the relevant income tax is not effectively connected) to the extent that such dividends have their source within the PRC unless there is an applicable tax treaty between the PRC and the jurisdiction of the non-resident enterprise which may reduce or provide exemption to the relevant tax. Similarly, any gain realized on the transfer of shares by such investor is subject to 10% PRC income tax rate (or lower treaty rate if applicable) if such gain is regarded as income derived from sources within the PRC.

According to the Arrangement between the PRC and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the 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避免雙重徵稅和防止偷漏稅的安排》), which was promulgated by the SAT on August 21, 2006 and came into effect on December 8, 2006, a company incorporated in Hong Kong will be subject to withholding tax at the lower rate of 5% on dividends it receives from a company incorporated in the PRC if it holds a 25% interest or more in the PRC company. According to the Notice on the Understanding and Identification of the Beneficial Owners in the Tax Treaty (《關於如何理解和認定稅收協定中“受益所有人”的通知》) (Guo Shui Han 2009 No.601), which was promulgated by the SAT and became effective on October 27, 2009, tax treaty benefits will be denied to “conduit” or shell companies without business substance, and a beneficial ownership analysis will be used based on a substance-over-form principle to determine whether or not to grant tax treaty benefits.

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According to the Notice on Strengthening the Administration of Enterprises Income Tax on Income From Transfers of Equity Interests by Non-resident Enterprises (《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》), which was promulgated by the SAT on December 10, 2009 with retroactive effect from January 1, 2008, and the No. 24 Public Notice in 2011 (《國家稅務總局公告2011年第24號》), which was promulgated by the SAT on March 28, 2011, in the event that a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly through disposing of the equity interests of an overseas holding company, and the actual tax imposed on the capital gain from the equity transfer is lower than 12.5%, or the jurisdiction in which the overseas holding company is established excludes foreign-sourced capital gain income, the foreign investor shall report this indirect transfer to the competent tax departments of the PRC. Under the substance over form principle, PRC tax departments may disregard the existence of the overseas holding company if such company lacks a reasonable commercial purpose and was established for the purpose of avoiding PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at a rate of 10% and the foreign investor may be subject to penalty for any late tax payment.

Business Tax

According to the Temporary Regulations on Business Tax (《營業稅暫行條例》) (Order No.136 of the State Council), which was promulgated by the State Council on December 13, 1993, came into effect on January 1, 1994, and was amended on November 10, 2008, and the Detailed Implementing Rules on the Temporary Regulations on Business Tax (《營業稅暫行條例實施細則》), which was promulgated by the MOF and the SAT and came into effect on December 25, 1993, was amended on May 22, 1997, December 15, 2008 and further amended on October 28, 2011, business tax is imposed on income derived from the furnishing of specified services and transferring of immovable property or intangible property at rates ranging from 3% to 20%, depending on the activity.

Value-added Tax

According to the Temporary Regulations on Value-added Tax (《增值稅暫行條例》) (Order No.538 of the State Council), which was promulgated by the State Council on December 13, 1993, came into effect on January 1, 1994, and was amended on November 10, 2008, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (《增值稅暫行條例實施細則》) (Order No.65 of the MOF), which was promulgated by the MOF and came into effect on December 25, 1993, and was amended on December 15, 2008 and October 28, 2011, all taxpayers selling goods, providing processing, repairing or replacement services or importing goods within the PRC shall pay value-added tax. The tax rate of 17% shall be levied on general taxpayers selling or importing various goods; the tax rate of 17% shall be levied on the taxpayers providing processing, repairing or replacement service; the applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated.

Furthermore, according to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (《營業稅改徵增值稅試點方案》) (Cai Shui 2011 No.110), which was promulgated by the MOF and the SAT, the State began to launch taxation reforms in a gradual manner with effect from January 1, 2012, whereby the collection of value-added tax in lieu of business tax items was implemented on a trial basis in regions showing significant radiating effects in economic development and providing outstanding reform examples, beginning with production service industries such as transportation and certain modern service industries.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

LEGAL REGULATIONS OVER FOREIGN EXCHANGE IN THE PRC

According to the Regulations on the Control of Foreign Exchange (《外匯管理條例》) (Order No.193 of the State Council), which was promulgated by the State Council on January 29, 1996, came into effect on April 1, 1996 and was amended on January 14, 1997 and August 5, 2008, foreign exchange receipts of domestic institutions or individuals may be transferred to the PRC or deposited abroad; the conditions for transfer to the PRC or overseas deposit, time limit and other contents shall be specified by the foreign exchange control department of the State Council according to the international receipts and payments status and requirements of foreign exchange control. Foreign exchange receipts for current account transactions may be retained or sold to financial institutions engaged in the settlement or sale of foreign exchange according to the relevant provisions of the State. Domestic institutions or individuals that make direct investments abroad or are engaged in the distribution or trade of overseas valuable securities or derivative products shall go through the formalities for registration according to the provisions of the foreign exchange control department of the State Council. Said institutions or individuals shall submit relevant documentation for examination and approval or record-filing prior to foreign exchange registration, if they shall be subject to the approval of or record-filing with the competent administration departments in advance as required by the State. The exchange rate for RMB follows a managed floating exchange rate system based on market demand and supply.

According to the Regulations on Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (Yin Fa 1996 No.210), which was promulgated by the PBOC on June 20, 1996, and came into effect on July 1, 1996, foreign exchange receipts under the current account of foreign-invested enterprises may be retained to the fullest extent specified by the foreign exchange bureau. Any portion in excess of such amount shall be sold to a designated foreign exchange bank or through a foreign exchange swap center.

According to the Notice on Issues relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Vehicles(《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》) (Hui Fa 2005 No.75), which was promulgated by the SAFE on October 21, 2005, and came into effect on November 1, 2005, the term “special purpose company” refers to any offshore company established or controlled by a PRC resident for the purpose of carrying out financing of equity interests (including convertible bond financing) in any PRC domestic enterprise. Prior to establishing or assuming control of such a special purpose company, a PRC resident (whether a naturalized or legal person) must complete the overseas investment foreign exchange registration or filing procedures with the relevant local SAFE branch. The Notice also requires PRC residents to register with the local SAFE branch after contributing their assets or shares of a domestic enterprise to an overseas special purpose company, or raising funds overseas after such a contribution. In addition, PRC residents are required to update their registration or filing with the local branch of SAFE within 30 days after the occurrence of any material change involving capital variation such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment, or the creation of any security interest with respect to that special purpose company without a round-trip investment being made. The Notice also applies retroactively meaning any PRC residents who have established or acquired control of such special purpose companies that have made onshore investment in the PRC in the past are required to complete the relevant overseas investment foreign exchange registration or filing procedures.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

According to the Notice on Improving of Relevant Business Operations Issues Concerning the Administration of the Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》) (Hui Zong Fa 2008 No.142), which was promulgated by the SAFE and came into effect on August 29, 2008, (i) the capital verification of a foreign-invested enterprise shall be conducted by accountants before the foreign-invested enterprise applies for the payment and settlement of foreign currency capital, and (ii) the RMB funds converted from the foreign currency capital of a foreign-invested enterprise may only be used within its approved scope of business and cannot be used for equity investments or acquisitions within the PRC unless specifically provided for otherwise. The use of such RMB capital may not be changed without SAFE's approval, and may not, in any case, be used to repay or prepay RMB loans if such loans have not been used.

LEGAL REGULATIONS OVER DOMAIN NAMES IN THE PRC

The Measures on the Administration of Domain Names for the Chinese Internet (《中國互聯網絡域名管理辦法》) (Order No.30 of the MIIT), which was promulgated by the MIIT on November 5, 2004 and came into effect on December 20, 2004, provides the registration of domain names in Chinese with the Internet country code of “.cn”.

According to 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》), which was promulgated by the China Internet Network Information Centre on May 28, 2012 and came into effect on June 28, 2012, domain name disputes are required to be submitted to institutions authorized by the China Internet Network Information Centre for resolution.