
LAWS AND REGULATIONS

This section sets forth a summary of the most significant laws, regulations and requirements that affect our business activities in the PRC and India or our Shareholders' right to receive dividends and other distributions from us. As confirmed by our Directors and advised by our PRC legal advisers and Indian legal advisers, all relevant PRC and Indian regulatory requirements to which Hengxin (Jiangsu), our PRC operating subsidiary, and Hengxin (India), our Indian operating subsidiary, are subject, respectively and which have a material impact on them have been set forth below.

I. PRC LAWS AND REGULATIONS

Regulations on Foreign Investments

The establishment, operation and management of corporate entities in the PRC are governed by the *Company Law of the PRC* (中華人民共和國公司法) (the "**Company Law**"), which was promulgated by the Standing Committee of the National People's Congress 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. The Company Law also applies to foreign-invested limited liability companies and companies limited by shares. According to the Company Law, where laws on foreign investment have other stipulations, such other stipulations shall apply.

The establishment, modification, termination of the limited liability company and joint stock limited company are subject to *Regulations of the PRC on the Administration of Company Registration* (中華人民共和國公司登記管理條例) (the "**Regulation on the Administration of Company Registration**"), which was promulgated by Order No. 156 of the State Council of the PRC on 24 June 1994 and was revised according to the Decision of the State Council on Revising the Regulations of the PRC on the Administration of Company Registration on 18 December 2005. According to the Regulation on the Administration of Company Registration, the registration of a foreign-invested company shall be subject to these Regulations. Where a law on foreign-invested enterprise provides otherwise for the registration of a foreign-invest ed enterprise, such a law shall apply.

The establishment procedures, approval procedures, registered capital requirement, organization structure and etc. matters of a wholly foreign-owned enterprise are regulated by the *Wholly Foreign-owned Enterprise Law of the PRC* (中華人民共和國外資企業法), which was passed on 12 April 1986 by the 4th Session of the sixth National People's Congress and amended on 31 October 2000. Our subsidiary, Hengxin (Jiangsu), as a wholly foreign-owned enterprise, is regulated by the law.

The legislation stipulates basic provisions that regulate the establishment of wholly foreign-owned enterprises and their daily business operations. Pursuant to this legislation, an enterprise with sole foreign investment shall pay tax in accordance with the relevant State tax regulations and may enjoy preferential reduction of or exemption from tax. Where an enterprise with sole foreign investment reinvests after-tax profits in the PRC, it may, in accordance, with State regulations, apply for reimbursement of the income tax already paid on the reinvested amount. The foreign investor may remit abroad legitimate profits earned from an enterprise with sole foreign investment, other legitimate income and funds obtained after liquidation of the enterprise. Wages and other legitimate income of foreign staff and workers of an enterprise with sole foreign investment may be remitted abroad after payment of individual income tax in accordance with the law.

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Rules for the Implementation of the Law of the PRC on Wholly Foreign-owned Enterprises (中華人民共和國外資企業法實施細則) which is revised according to the Decision of the State Council Regarding the Revision of Rules for the Implementation of the Law of the PRC on wholly Foreign-owned enterprises on 12 April 2001, approved on 28 October 1990 by the State Council, issued on 12 December 1990 by the Ministry of Foreign Economic Relations and Trade, is formulated according to the Wholly Foreign-owned Enterprise Law of the PRC.

The regulation stipulates that in operating period, no wholly foreign-owned enterprise may reduce their registered capital. If however, it is really needed to make such reduction due to some changes such as those in the total amount of investment and production scale, it may be reduced upon the approval by the examining and approving authority. Upon the approval by the examining and approving authority, the foreign investors may also make their investments with their profits in Renminbi from any other enterprises established by them within the PRC. Wages and salaries as well as any other legitimate income in foreign exchange of foreign workers and staff members, or of the workers and staff members from Hong Kong, Macao or Taiwan, of a wholly foreign-owned enterprise may be remitted outside China freely after the income tax is paid in accordance with the provisions of the PRC tax law.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises is regulated by the *Catalogue for the Guidance of Foreign Investment Industries (2007)* (外商投資產業指導目錄 (2007)) (the "Guidance Catalogue"), which was promulgated by the Ministry of Commerce and the National Development and Reform Commission on 31 October 2007 and became effective on 1 December 2007. The Guidance Catalogue specifically divides foreign investment industries into three categories: encouraged, restricted and prohibited. Industries not listed in the Guidance Catalogue are generally open to foreign investment unless specifically barred in other PRC regulations. The business scope of Hengxin (Jiangsu) does not fall into the restricted and prohibited categories.

Pursuant to the *Provisions for the Alteration of Investors' Equities in Foreign-invested Enterprises* (外商投資企業投資者股權變更的若干規定) promulgated by the Ministry of Foreign Trade and Economic Cooperation and the State Administration of Industry and Commerce on 28 May 1997, the term of "Alteration of investors' equities in foreign-invested enterprises" refers to alteration of investors of Sino-foreign equity joint ventures, Sino-foreign contractual joint ventures and foreign-owned enterprises set up in the PRC or their shares of investment in the enterprises. The department to examine and approve the alteration of investors' equities in the enterprises shall be the examination and approval department that has approved the establishment of this enterprise. Should changes take place in the equities of an investor in the enterprise due to multiplication of the enterprise's registered capital and the total investment of this enterprise surpass the limit of amount authorized to handle by the original examination and approval department as a result, alteration of the equities of the investors in the enterprise shall be reported for examination and approval to a senior examination and approval department in line with the limit of power of this department and pertinent regulations.

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Regulations on Foreign Currency Exchange

Pursuant to *Regulation of the PRC on Foreign Exchange Administration* (中華人民共和國外匯管理條例) (promulgated by Order No.193 of the State Council of the PRC on 29 January 1996, amended according to the Decision of the State Council on Amending the Regulation of the PRC on Foreign Exchange Administration on 14 January 1997, and amended again at the 20th executive meeting of the State Council on 1 August 2008), the RMB is freely convertible only to the extent of current account items, including the distribution of dividends, interests payments, trade and service-related foreign exchange transactions by complying with the certain procedure requirements. But the State supervises and controls the foreign exchange under the capital item. Any institution or individual borrowing foreign debts shall abide by the relevant state provisions and handle the foreign debt registration formalities at a foreign exchange administrative organ. An institution shall apply to a foreign exchange administrative organ before providing foreign guarantee. The foreign exchange administrative organ shall make a decision of approval or disapproval according to the asset-liability situation of the institution. In conclusion, foreign exchange transactions by our subsidiary in the PRC under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, PRC governmental authorities.

Invitation and Submission of Bids Law

Invitation and Submission of Bids Law (中華人民共和國招標投標法) was passed by the 11th meeting of the Standing Committee of the Ninth National People's Congress on 30 August 1999 and effective as of 1 January 2000. Bids must be invited for the following construction projects undertaken in the PRC, including surveying for, design, construction and supervision of the projects as well as the procurement of important equipment, materials, etc. for the construction: (1) projects with a bearing upon the public interest and public safety such as large-scale infrastructure projects, public utility projects, etc.; (2) projects that are totally or partially funded by the investment of State-owned funds or financed by the State; (3) projects using loans from international organizations or foreign governments, or aid funds.

Invitations of bids are divided into public invitation of bids and private invitation of bids. If the bid inviting party employs the public invitation of bids method, it shall issue a bid invitation announcement. The bid invitation announcement for a project for which the invitation of bids is legally required shall be issued in a State-designated newspaper or periodical, on a State-designated information network or in other State-designated media. If the bid inviting party employs the private invitation of bids method, it shall send a bid invitation letter to at least three specific legal persons or other organizations which have the ability to handle the project and which have a good credit standing.

The bidders shall deliver the bid documents to the bid submission address before the deadline for the submission of bid documents specified in the bid invitation documents. After receiving the bid documents, the bid inviting party shall sign for receipt and preserve the same, and may not open them. If there are fewer than three bidders, the bid inviting party shall invite bids anew according to this law. Two or more legal persons or other organizations may organize

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as a consortium and jointly submit a bid as a single bidder. Bidders may not collude on the bid price, may not preclude fair competition from other bidders or prejudice the lawful rights and interests of the bid inviting party or other bidders. Bidders and the bid inviting party may not collude in the submission of bids in order to harm the interests of the State, the public interest or the lawful rights and interests of a third party.

The winning bidder shall be determined by the bid inviting party on the basis of the written bid evaluation report submitted, and the candidates for the status of winning bidder recommended, by the bid evaluation committee. Alternatively, the bid inviting party may authorize the bid evaluation committee to directly determine the winning bidder. The bid of the winning bidder shall meet one of the following conditions: (1) it conforms to the greatest possible extent with all of the overall evaluation standards specified in the bid invitation documents; (2) it satisfies the substantive requirements of the bid invitation documents and its bid price is the lowest among those evaluated, except for bid prices below cost.

Environmental Regulations

We are subject to a variety of PRC national and local environmental laws and regulations, including the *Environmental Protection Law of the PRC* (中華人民共和國環境保護法), the *Law of PRC on the Prevention and Control of Water Pollution* (中華人民共和國水污染防治法), the *Law of PRC on the Prevention and Control of Air Pollution* (中華人民共和國大氣污染防治法), the *Law of PRC on the Prevention and Control of Noise Pollution* (中華人民共和國環境噪聲污染防治法), the *Law of PRC on the Prevention and Control of Solid Waste Pollution* (中華人民共和國固體廢物污染環境防治法), the *Administrative Regulations on Environmental Protection for Construction Projects* (建設項目環境保護管理條例) and the *Administrative Regulations on the Levy and Utilization of Sewage Charge* (排污費徵收使用管理條例).

Pursuant to such laws and regulations, any business operations that may cause environmental pollution and other public hazards shall incorporate the work of environmental protection into their plans and establish a reliable system for environmental protection, and must adopt effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities. Companies are also required to carry out an environmental impact assessment before commencing construction of production facilities and install pollution treatment facilities that meet the relevant environmental standards for treating pollutants before discharge. If a company fails to report and/or register any environmental pollution caused by it, it will be warned or subject to penalties. If the company then fails to restore the environment to its original state or improve the environment as affected by the pollution within the time limit, it will then be penalized and its business license may be suspended. Companies or enterprises causing environmental pollution and hazards are responsible for taking action to remedy the hazards and consequences caused by the pollution, and compensation for any loss or damages caused by the environmental pollution.

Enterprises are required to comply with the applicable national and local environmental laws and regulations.

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Labour Law

We are subject to the *PRC Labour Law* (中華人民共和國勞動法), pursuant to which companies must enter into employment contracts with their employees, based on the principles of equality, consent and agreement through consultation. Companies must establish and effectively implement a system of ensuring occupational safety and health, educate employees on occupational safety and health, preventing work-related accidents and reducing occupational hazards. Companies must also pay for their employees' social insurance premium.

The principal regulations governing the employment contract is the *PRC Labour Contract Law* (中華人民共和國勞動合同法) (the "**Labour Contract Law**"), which was promulgated by the Standing Committee of the National People's Congress on 29 June 2007 and came into effect on 1 January 2008. Pursuant to the Labour Contract Law, employers shall establish employment relationship with employees on the date that they start employing the employees. To establish employment, a written labour contract shall be concluded, or employers will be liable for the illegal actions. Furthermore, the probation period and liquidated damages shall be restricted by the law to safeguard employees' rights and interests.

Pursuant to the *Regulations on Occupational Injury Insurance* (工傷保險條例) promulgated on 27 April 2003 and effective on 1 January 2004 and the *Interim Measures concerning the Maternity Insurance for Enterprise Employees* (企業職工生育保險試行辦法) promulgated on 14 December 1994 and effective on 1 January 1995, PRC companies shall pay occupational injury insurance premiums and maternity insurance premiums for their employees. Pursuant to the *Interim Regulations on the collection and payment of Social Insurance Premium* (社會保險費征繳暫行條例) promulgated and effective on 22 January 1999 and the *Interim Measures concerning the Administration of the Registration of Social Insurance* (社會保險登記管理暫行辦法) promulgated and effective on 19 March 1999, basic pension insurance, medical insurance and unemployment insurance are collectively referred to as social insurance. Each of the PRC companies and their employees are required to contribute to the social insurance plan.

Safety Law

According to the *Production Safety Law of the PRC* (中華人民共和國安全生產法) which was promulgated on 29 June 2002 by the Standing Committee of the National People's Congress and became effective as of 1 November 2002, companies carrying out production activities are required to have safe production conditions as required by relevant laws and regulations. Companies having more than 300 employees are required to form a management department to carry out the functions of production safety or appoint personnel solely responsible for production safety. Companies are required to display warning signs at the location and on equipment with high potential risks. Companies are required to purchase job-related injury insurance according to relevant laws and regulations.

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According to the *Fire Control Law of the PRC* (中華人民共和國消防法), we are required to submit the design and drawings of a construction project to the relevant fire control bureau for approval before commencement of the construction. Also upon completion of a construction project, fire prevention mechanisms of the construction project should be evaluated and approved by the relevant fire control bureau before commencement of operation.

Regulations on Tax

Our company is incorporated under the Singapore Companies Act. Pursuant to the *PRC Enterprise Income Tax Law* (中華人民共和國企業所得稅法) (the "EIT Law") and its Implementation Regulations, enacted on 16 March 2007 and 6 December 2007, respectively, and became effective on 1 January 2008, enterprises are classified into resident and non-resident enterprises. The term "resident enterprise" means an enterprise which is set up under Chinese law within the territory of China, or set up under the law of a foreign country (region) but whose actual management organ is within the territory of China. For its incomes sourced from both inside and outside the territory of China, a resident enterprise shall pay the enterprise income tax at the tax rate of 25%. The term "non-resident enterprise" means an enterprise which is set up under the law of a foreign country (region) and whose actual management organization is not within the territory of China but who has organizations or establishments within the territory of China, or who does not have any organization or establishment within the territory of China but who has incomes sourced in China. In case a non-resident enterprise sets up an organization or establishment within the territory of China, it shall pay enterprise income tax at the tax rate of 25% on its incomes sourced inside the territory of China and incomes sourced outside the territory of China but actually connected with the said organization or establishment. In case a non-resident enterprise has no organization or establishment within the territory of China, or its incomes have no actual connection to its organization or establishment inside the territory of China, it shall pay enterprise income tax at the tax rate of 20% on the incomes sourced inside the territory of China. The Implementation Regulations reduced the rate from 20% to 10% effective from 1 January 2008.

As a majority of the members of our management team continue to be located in China after the effective date of the EIT Law, we may be treated as a resident enterprises for enterprise income tax purposes.

Based on the EIT Law, (i) dividends from the PRC companies to their foreign shareholders which are qualified as resident enterprises are tax exempt; (ii) dividends from a resident enterprise to a non-resident enterprise, who sets up an organization or establishment within the territory of China and there is actual connection between the dividends and such organization or establishment within the territory of China, are tax exempt; and (iii) dividends from a resident enterprise to a non-resident enterprise who has no organization or establishment within the territory of China or its incomes have no actual connection to its organization or establishment inside the territory of China are subject to a tax rate of 20%. The Implementation Regulations reduced the rate from 20% to 10% effective from 1 January 2008.

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According to the circular, *Ministry of Finance and the State Administration of Taxation Concerning Several Preferential Policies Relevant to Enterprise Income Tax* (財政部、國家稅務總局關於企業所得稅若干優惠政策的通知), the undistributed profits earned by foreign investment enterprises prior to 1 January 2008 and distributed to foreign investors later shall be exempt from PRC withholding tax, whereas the profits earned and distributed after 1 January 2008 shall be subject to PRC withholding tax pursuant to the EIT Law.

Prior to 1 August 2008, income tax payable by foreign-invested enterprises in the PRC was governed by the *Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC* (中華人民共和國外商投資企業及外國企業所得稅法) and the related implementation rules. Pursuant to the law, any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempted from income tax for two years commencing from the first profit-taking year (after offsetting all tax losses carried forward from previous years) and allowed a fifty percent reduction in the following three consecutive years.

In case an enterprise has already been set up before the promulgation of the new EIT Law and the Implementation Rules and enjoys low tax rates in accordance with the provisions of the tax laws and administrative regulations in force at that time, it may, in accordance with the provisions of the State Council, continue to enjoy the preferential treatments within five years as of the promulgation of the present Law and gradually transfer to the tax rate as prescribed in the present Law. In case an enterprise enjoys the preferential treatment of tax exemption for a fixed term, it may, after the promulgation of this Law, continue to enjoy such treatment in accordance with the provisions of the State Council until the fixed term expires. However, if an enterprise has failed to enjoy the preferential treatment by virtue of failure to make profits, the term of preferential treatment may be counted from 2008 when the present Law is effective.

Pursuant to the EIT Law and the Implementation Regulations, the High-tech Enterprises that require key state support certificated by the administrative departments of all provinces, autonomous regions, municipalities directly under the Central Government and cities specifically designated in state plan, in coordination with finance and taxation departments at the same level as the administrative departments are subject to the applicable enterprise income tax rate of 15%.

On 13 December 1993 the State Council promulgated *Provisional Regulation of the PRC on Value Added Tax* (中華人民共和國增值稅暫行條例) (the "VAT Provisional Regulation"). On 5 November 2008 the State Council amended the VAT provisional Regulation which became effective on 1 January 2009. Pursuant to the VAT provisional Regulation and its implementation rules, entities and individuals engaged in the sale of goods, supply of processing, repair and replacement services, and import of goods in the PRC are taxpayers of value added tax and shall pay value added tax at the rate of 17% unless otherwise stipulated.

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Regulations on Academician Workstation

Academician workstations (院士工作站) in Jiangsu Province are regulated by *Provisional Measures on Administration of Academician Workstations in Enterprises of Jiangsu Province* (江蘇省企業院士工作站管理辦法(試行)) (the "**Provisional Measures**"), promulgated by Jiangsu Science and Technology Bureau on and effective as of 18 December 2008. Pursuant to the Provisional Measures, Jiangsu Science and Technology Bureau is the governing body of all academician workstations in the enterprises of Jiangsu Province. Eligible enterprises can apply to the local bureau in charge of science and technology for setting up enterprise academician workstations. The local bureaus in charge of science and technology are responsible for preliminary examining the applications by enterprises and submitting such applications to Jiangsu Science and Technology Bureau. Jiangsu Science and Technology Bureau grants final approval based on the demand of innovation of science and technology of Jiangsu Province and the conditions of the enterprises that submitting the applications. The enterprises, which are granted the approval for setting up an academician workstation, are the main body for setting up and managing the academician workstation and are responsible for drawing up administrative measures on its academician workstation. Further, such enterprises are responsible for arranging special research budgets and operating budgets for the academician workstations annually, arranging particular administrative staff, providing supports and services to the research and daily needs of the team of the academician workstation, and providing at least one research assistant to each academician in the academician workstation.

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Foreign Direct Investment

Foreign investment in India is primarily governed by the provisions of the Foreign Exchange Management Act, 1999 ("**FEMA**") and the rules and regulations promulgated there under. The RBI, in exercise of its powers under FEMA, has notified the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000 ("**FEMA Regulations**") which prohibit, restrict and regulate, transfer or issue of securities, to a person resident outside India. Pursuant to the FEMA Regulations, no prior consent or approval is required from the Reserve Bank of India ("**RBI**") for foreign direct investment under the "automatic route" within the specified sectoral caps prescribed for various industrial sectors. In respect of all industries not specified under the automatic route, and in respect of investments in excess of the specified sectoral limits under the automatic route, approval for such investment may be required from the Foreign Investment Promotion Board and/or the RBI. Further, FIIs may purchase shares and convertible debentures of an Indian company under the portfolio investment scheme through registered brokers on recognized stock exchanges in India. Regulation 1 (4) of Schedule II of the FEMA Regulations provides that the total holding by each FII or Securities and Exchange Board of India approved sub-account of an FII shall not exceed 10% of the total paid-up equity capital of an Indian company or 10% of the paid-up value of each series of convertible debentures issued by an Indian company and the total holdings of all FIIs and sub accounts of FIIs added together shall not exceed 24% of the paid-up equity capital or paid-up value of each series of convertible

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debentures. However, this limit of 24% may be increased up to the statutory ceiling as applicable, by the Indian company concerned passing a resolution by its board of directors followed by the passing of a special resolution to the same effect by its shareholders.

Foreign Trade (Development and Regulation) Act, 1992

This statute seeks to increase foreign trade by regulating the imports and exports to and from India. This legislation read with the Indian Foreign Trade Policy, 2004 provides that no export or import can be made by a person or company without an importer exporter code number unless such person or company is specifically exempt. An application for an importer exporter code number has to be made to the office of the Joint Director General of Foreign Trade, Ministry of Commerce. An importer-exporter code number allotted to an applicant is valid for all its branches, divisions, units and factories.

Master Circular on Import of Goods and Services

The Reserve Bank of India issues a Master Circular on Import of Goods and Services every year on July 1. Import of goods into India is allowed in terms of Section 5 of the Foreign Exchange Management Act 1999 (42 of 1999), read with the Foreign Exchange Management (Current Account) Rules, 2000 as amended from time to time. Import trade is regulated by the Directorate General of Foreign Trade under the Ministry of Commerce & Industry, Department of Commerce, Government of India. Authorised Dealer Category – I (“**AD Category – I**”) banks are required to ensure that the imports into India are in conformity with the Foreign Trade Policy in force and Foreign Exchange Management (Current Account Transactions) Rules, 2000 framed by the Government of India vide Notification No. G.S.R.381 (E) dated 3 May 2000 and the Directions issued by Reserve Bank under Foreign Exchange Management Act, 1999 from time to time. AD Category – I banks may also advise importers to ensure compliance with the provisions of Income Tax Act, wherever applicable.

The Companies Act, 1956

The Companies Act, 1956 deals with laws relating to companies and certain other associations. The Companies Act, 1956 primarily regulates the formation, financing, functioning and winding up of companies. The Companies Act, 1956 prescribes regulatory mechanism regarding all relevant aspects including organizational, financial and managerial aspects of companies. Regulation of the financial and management aspects constitutes the main focus of the Companies Act, 1956. In the functioning of the corporate sector, although freedom of companies is important, protection of the investors and shareholders, on whose funds they flourish, is equally important. The Companies Act, 1956 plays the balancing role between these two competing factors, namely, management autonomy and investor protection.

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The Bombay Shops and Establishment Act, 1948

Under the provisions of the Bombay Shops and Establishment Act, 1948, all establishments are required to be registered. Such legislations regulate the working and employment conditions of the workers employed in shops and establishments including commercial establishments and provide for fixation of working hours, rest intervals, overtime, holidays, leave, termination of service, maintenance of shops and establishments and other rights and obligations of the employers and employees.

Income-tax Act, 1961

The Income Tax Act, 1961 deals with the taxation of individuals, partnership firms and others. As per the provisions of the Income Tax Act, 1961 the rates at which they are required to pay tax is calculated on the income declared by them or assessed by the authorities, after availing the deductions, exemptions and concessions accorded under the Income Tax Act, 1961. The maintenance of Books of Accounts and relevant supporting documents and registers are mandatory under the Income Tax Act, 1961. Filing of returns of Income is compulsory for all assesses.

Central Sales Tax Act ("CST")

The main object of the CST is to formulate principles for determining (a) when a sale or purchase takes place in the course of trade or commerce (b) When a sale or purchase takes place outside a State (c) When a sale or purchase takes place in the course of imports into or export from India, to provide for levy, collection and distribution of taxes on sales of goods in the course of trade or commerce, to declare certain goods to be of special importance trade or commerce and specify the restrictions and conditions to which State laws imposing taxes on sale or purchase of such goods of special importance (called as declared goods) shall be subject. CST imposes the tax on inter state sales and states the principles and restrictions as per the powers conferred by Constitution of India.

Value Added Tax ("VAT")

VAT is a system of multi-point levy on each of the purchases in the supply chain with the facility of set-off input tax on sales whereby tax is paid at the stage of purchase of goods by a trader and on purchase of raw materials by a manufacturer. VAT is based on the value addition of goods, and the related VAT liability of the dealer is calculated by deducting input tax credit for tax collected on the sales during a particular period. VAT is a consumption tax applicable to all commercial activities involving the production and distribution of goods and the provisions of services, and each state that has introduced VAT has its own VAT Act, under which, persons liable to pay VAT must register and obtain a registration number from Sales Tax Officer of the respective state.

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Excise duty

Excise duty is levied on the manufacture or production of goods in India and is collected at the time of removal of the goods from the place where they are manufactured or produced. It is levied under the provisions of the Central Excise Act, 1944 and is generally paid on the transaction value of the goods at the rates mentioned in the Central Excise Tariff Act, 1985. The rate of excise duty depends on the classification of the goods in the Tariff Act. Currently, the peak rate of excise duty is 10.30% (including education cess at the rate of 2% and secondary and higher education cess at the rate of 1%). However, the Government has the power to declare exemptions from the whole or a part of the excise duty chargeable. In addition, location based incentives have also been specified by the Government.

Standards of Weights and Measures Act, 1976

This legislation and the rules made there under apply to any packaged commodity that is sold or distributed. It provides for standardization of packages in specified quantities or numbers in which the manufacturer, packer or distributor shall sell, distribute or deliver some specified commodity to avoid undue proliferation of weights, measures or number in which such commodities may be packed. Any person intending to pre-pack or import any commodity for sale, distribution or delivery has to make an application to the Director of Legal Metrology for registration.

Standards of Weights and Measures Enforcement Act, 1985

The Standards of Weights and Measures Enforcement Act, 1985 regulates the classes of weights and measures manufactured, sold, distributed, marketed, transferred, repaired or used and the classes of users of weights and measures. The Standards of Weights and Measures Enforcement Act, 1985 was passed with a view of regulating and modernizing the standards used in India based on the metric system. The units of weight which are sought to be used in day to day trade are required to be periodically inspected and certified by the designated authorities under the Standards of Weights and Measures Enforcement Act, 1985 for their accuracy.

Approvals from Local Authorities

Setting up of a factory or manufacturing/housing unit entails the requisite planning approvals to be obtained from the relevant Local Panchayat(s) outside the city limits and appropriate Metropolitan Development Authority within the city limits. Consents from the state Pollution Control Board(s), the relevant state Electricity Board(s), the State Excise Authorities, Sales Tax Authorities, are required to be obtained before commencing the building of a factory or the start of manufacturing operations.

Competition Act, 2002, ("Competition Act")

The Competition Act, has been enacted to prevent anti-competitive practices, promote and sustain competition, protect the interests of consumers and ensure freedom of trade in markets in India.

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As per the notified sections of the Competition Act, entering into agreements between enterprises which *inter alia* affect the prices, supply, distribution or other such collusive arrangements are anti-competitive in nature and are prohibited under Section 3 of the Competition Act. Section 4 of the Competition Act, prohibits an enterprise that is in a dominant position from abusing its dominant position. Further, Section 5 of the Competition Act provides the assets/ turnover thresholds applicable to acquisitions, merger and amalgamations in order to determine whether the transaction would be regarded as a combination for the purposes of the Competition Act. However, Section 6 of the Competition Act which provides for regulation of 'combinations' has not been notified yet.

Environment (Protection) Act, 1986

The Environment (Protection) Act, 1986 was enacted as a general legislation to safeguard the environment from all sources of pollution by enabling coordination of the activities of the various regulatory agencies concerned, to enable creation of an authority with powers for environmental protection, regulation of discharge of environmental pollutants etc. The purpose of the Environment (Protection) Act, 1986 is to act as an "umbrella" legislation designed to provide a frame work for Central government co-ordination of the activities of various central and state authorities established under previous laws, such as Water Act & Air Act. It includes protection of water, air and land and the inter-relationships which exist among water, air and land, and human beings and other living creatures, plants, micro-organisms and property.

Trade Marks Act, 1999

The Trade Marks Act, 1999 ("**Trademark Act**") governs the statutory protection of trademarks in India. In India, trademarks enjoy protection under both statutory and common law. Indian trademark law permits the registration of trademarks for goods and services. Certification marks and collective marks can also be registered under the Trademark Act. An application for trademark registration may be made by individual or joint applicants and can be made on the basis of either use or intention to use a trademark in the future.

Applications for a trademark registration may be made in one or more international classes. Once granted, trademark registration is valid for ten years unless cancelled. If not renewed after ten years, the mark lapses and the registration has to be restored. The average timeline for the completion of the entire registration process is three to four years. However, it is likely that this timeline may be reduced in the near future due to initiatives which have been recently undertaken to expedite trademark filings. It also provides for penalties for infringement, falsifying and falsely applying trademarks.

LAWS AND REGULATIONS

The Payment of Gratuity Act, 1972

The Payment of Gratuity Act, 1972 was enacted to introduce a scheme for payment of gratuity to certain employees employed in Industrial and commercial establishment as a measure of social security. By the amendment of 1984 by act 26 of 1984 sub section (3A) was inserted in section 1 to the Payment of Gratuity Act, 1972 to ensure that once the Payment of Gratuity Act, 1972 has become applicable to such shop or establishment it shall continue to be so notwithstanding the fact that the number of persons employed therein at any time after it has become so applicable falls below ten. To ensure that an unscrupulous employer may not fabricate the records to avoid application of the Payment of Gratuity Act, 1972 or reduce the number of employees just to avoid payment of gratuity, various provisions, as to notice of opening, notice of change or closure of the shop or establishment, and appointment of inspectors have been made under the Payment of Gratuity Act, 1972. Any violation thereof have been made offences punishable with imprisonment or fine or with both.

The Payment of Wages Act, 1936

It regulates payment of wages to certain classes of employed persons. It makes every employer responsible for the payment of wages to person employed by him. No deductions can be made from the wages nor can any fine be levied on wages earned by a person employed except as provided under the Payment of Wages Act, 1936.

The Minimum Wages Act, 1948

It came into force with an objective to provide for the fixation of a minimum wage by the employer to the employee. Every employer is mandated to pay the minimum wages to all employees engaged to do any work skilled, unskilled, and manual or clerical (including out-workers) in any employment listed in the schedule to the Minimum Wages Act, 1948, in respect of which minimum rates of wages have been fixed or revised under the Minimum Wages Act, 1948.

The Payment of Bonus Act, 1965

It was enacted with the objective of providing of payment of bonus to employees on the basis of profit or on the basis of productivity. The Payment of Bonus Act, 1965 ensures that a minimum annual bonus is payable to every employee regardless of whether the employer has made a profit or a loss in the accounting year in which the bonus is payable. Every employer is bound to pay to every employee, in respect of the accounting year, a minimum bonus which is 8.33% of the salary or wage earned by the employee during the accounting year or Rs. 100, whichever is higher.