

## Appendix A

# Sample Contracts

## MANUFACTURING AGREEMENT

This MANUFACTURING AGREEMENT is entered into by and between \_\_\_\_\_ (the “Company”) and \_\_\_\_\_ (“Manufacturer”), in accordance with the “Law of the People’s Republic of China on Economic Contracts Involving Foreign Interests” and other relevant laws.

1. *Manufacturing Process:* Manufacturer shall produce, manufacture, and package a \_\_\_\_\_ (referred to herein as the “Products”) by employing the latest technology and equipment (hereinafter referred to as “Manufacturing Process”). Said Manufacturing Process shall be conducted at Manufacturer’s facilities located at \_\_\_\_\_. The Products shall meet all specifications as set forth in Exhibit “A” of this Agreement. Manufacturer acknowledges and understands that the specifications and drawings set forth in Exhibit A are in the English language, and agrees that it fully understands said specifications and drawings. Manufacturer further agrees that the English version of Exhibit A shall be controlling and that no other version of the specifications or drawings will control or influence the quality and results of the manufacturing process of the Products. The Company expressly reserves the right to reject any Products which do not meet the standards set forth in Exhibit “A”, or if the Products are inconsistent with the samples provided by Manufacturers to the Company. Manufacturer agrees to allow a representative of the Company to be on-site at any time during the Manufacturing Process.

2. *Production Schedule:* Manufacturer shall produce a test quantity of product based upon the following schedule:

\_\_\_\_\_, 19/20      [x] Units

\_\_\_\_\_, 19/20      [y] Units

After the initial  $[x + y]$  units are produced, shipped, and delivered to the Company’s customer, the parties will thereafter mutually agree upon the quantity and scheduling for the production of additional units.

3. *Scope of Agreement:* Manufacturer acknowledges that it is acting solely as a contract-manufacturer and this Agreement does not form a joint venture or association of any type. Manufacturer, and its affiliates or subsidiaries, agree not to sell or market the Products which are the subject of this Agreement at any time during and after the termination of this Agreement in the United States, the People’s Republic of China, and any other country.

4. *Subcontracting*: No other production facility shall be used without the advance written approval of the Company. Manufacturer agrees to provide the Company thirty (30) days advanced written notice of any change in the production facility location. If the consent of the Company is obtained for purposes of subcontracting, any and all subcontractors shall be bound by the terms of this Agreement.

5. *Packaging*: Manufacturer shall package the Products in accordance with the specifications as shown in Exhibit "B" of this Agreement. All packaging materials shall be provided by and at the sole cost and expense of Manufacturer. Manufacturer shall maintain a supply of packaging materials in a quantity of not less than an amount required for one full month's supply of the Products.

6. *Materials*: The Company shall supply [ ] components used in the Manufacturing Process. Manufacturer shall train its personnel to avoid damaging the [ ] components. However, the Company shall allow a damage rate for the subject zippers used in the Manufacturing Process to the sum of [z] percent ([z]%), and the Company shall bear the cost of this percentage. If the damage rate exceeds the [z] percent ([z]%) allocation, Manufacturer shall reimburse or credit the Company for the damaged [ ]. Manufacturer will assist the Company with the import of the [ ] components or any and all other raw materials, component parts, ingredients, and other necessary materials supplied by the Company. Manufacturer shall handle all export formalities in connection with this Agreement.

Manufacturer agrees to only use materials meeting international and the Company's customer's standards in the Manufacturing Process. Specifically, Manufacturer shall require its suppliers, including [ ], and other suppliers of parts and materials, to abide by international quality standards and restrictions, and shall reject any parts or materials which do not meet international and the Company's customer's standards. Manufacturer shall require its suppliers to use [ ] materials that are consistent with the product specifications attached hereto as Exhibit "C" of this Agreement. The Company expressly reserves the right to reject any Products that fail to meet international standards for [ ] materials and production.

The Company agrees to assist Manufacturer in obtaining a reliable, prompt, and cost-effective supply of raw materials, such as [ ], to be used in the Manufacturing Process.

7. *Warehousing and Security*: Manufacturer shall provide the Company with ample storage space, without cost, for the materials, parts, and finished Products. The Parties agree that the packaging materials, parts, and finished Products shall be stored at Manufacturer's premises, unless written permission is granted from the Company.

Manufacturer agrees to provide storage for the packaging materials, ingredients, and packaged Products which is secure from theft, shrinkage, moisture, or vermin. Manufacturer shall also purchase a loss and damage insurance policy sufficient to cover the total value of the materials, parts, and finished products. Manufacturer further agrees to reimburse the Company for any and all damage to the materials, parts, and finished Products which is not compensated for

under the insurance policy or by the insurance company while such materials, parts, and finished products are in the possession of, or under the custody or control of, Manufacturer.

8. *Pricing and Terms:* The Company shall pay to manufacturer the sum of US \$ FOB Shanghai per unit for the first  $[x + y]$  units produced under this Agreement. The pricing terms may be renegotiated after the completion of the test quantity set forth in section 2 of this Agreement.

The Company agrees to pay Manufacturer for the manufacturing of the Products by Letter of Credit (L/C) under the terms and conditions set forth in the Letter of Credit, a copy of which is attached to as Exhibit "D" of this Agreement.

9. *Term and Termination:* The term of this Agreement is for a period of one year and may be renewed by the Parties by written stipulation. Either party may, however, terminate this Agreement, without cause, upon not less than one hundred twenty (120) days of written notice to the other party. Either party shall have the right to terminate the Agreement, prior to the expiration of the term hereof, upon the occurrence of any of the following events:

a. Breach or default by any party of any of the terms, obligations, covenants, representations or warranties under this Agreement which are not waived in writing by the non-defaulting party. In such case, the non-defaulting party shall notify the other of such alleged breach or default and the other party shall have a period of thirty (30) days to cure the same.

b. The other party is declared insolvent or bankrupt, or makes an assignment for the benefit of creditors, or a receiver is appointed.

c. Either party is unable to continue its operation due to causes of force majeure as defined in Paragraph 19 of this Agreement.

d. Either party engages in any activity that is considered a conflict of interest with the other party, or directly or indirectly competes with the products or business activities of the other party.

10. *Warranties of Manufacturer:* Manufacturer warrants that the Products shall be free from all defects and shall meet all written specifications and drawings as set forth in Exhibit A. Should there be any defects in the products manufactured by Manufacturer and such defects are caused by Manufacturer during the manufacturing process or the period in which Manufacturer has control of the products, Manufacturer shall be responsible for curing such defects and for any and all direct or consequential damages as a result of such defects.

11. *Proprietary Information and Intellectual Property:* Manufacturer expressly agrees that all rights, title, and interest to all trademarks, service marks, patents, copyrights, technology, formulas, know-how, non-patented technology, trade secrets, designs, technical documentation, applications literature, sales information, customer lists, and other technology (hereinafter

referred to as “Proprietary Information and Intellectual Property”) owned by the Company or its customers shall at all times remain the sole property of the Company and its customers. Manufacturer expressly acknowledges and agrees that the Products, specifications and drawings, and source(s) of materials and parts, are Proprietary Information and Intellectual Property of the Company and its customers. Manufacturer further expressly acknowledges and agrees that any other information revealed by the Company to Manufacturer in the future is Proprietary Information and Intellectual Property and entitled to full protection under this Agreement.

Manufacturer shall not use, duplicate, or transfer the Proprietary Information and Intellectual Property of the Company for any purpose except to accomplish the production objectives of this Agreement. Manufacturer shall not make any modifications to the Products and/or components owned and/or contributed by the Company, without the prior written consent of the Company.

Manufacturer shall treat all of the Company’s Proprietary Information and Intellectual Property in confidence and shall protect the same with the same degree of care as that with which it protects its own confidential or proprietary information. In the absence of a the Company’s prior written consent, Manufacturer shall not disclose the Company’s Proprietary Information and Intellectual Property to any person except authorized representatives of the Manufacturer or duplicate, transfer, or use the same for any purpose other than in connection with the performance of this Agreement. Manufacturer further agrees that its employees, agents, affiliates, related organizations, and representatives shall be bound by the terms of this section prohibiting the unauthorized disclosure, duplication, transfer, and use of the Company’s Proprietary Information and Intellectual Property. This Article shall be effective for the duration of this Agreement and for an additional period of fifteen (15) years after expiration or premature termination of this Agreement.

Manufacturer further agrees that it shall not, under any circumstances, contact the Company’s customers or suppliers of materials or parts, except where specifically authorized in writing by the Company.

12. *Indemnification by the Company:* the Company agrees to defend, indemnify and hold Manufacturer harmless from all actions, claims, liabilities, costs, damages and expenses, including attorneys’ fees, arising from or asserted against Manufacturer or which Manufacturer shall be compelled to pay, sustain or incur by reason of the use of the Proprietary Information and Intellectual Property defined in section 11, provided that Manufacturer shall give prompt notice to the Company of any claim or pending action so that the Company may have the opportunity to defend its interests.

13. *Indemnification by Manufacturer:* Manufacturer agrees to defend, indemnify and hold the Company harmless from all actions, claims, lawsuits, liabilities, costs, damages, fines, penalties and expenses, including attorneys’ fees, resulting from claims arising from, or relating to, any acts or omissions of Manufacturer or from the Products or any component thereof, or packaging, excluding, however, claims which might be filed or asserted concerning the transportation and/or storage of the Products to the extent that such transportation and/or storage is provided by the Company.

14. *Notice of Claims:* Manufacturer and the Company shall provide prompt, written notice to

each other in the event that either party receives any information or notice that a claim has been, or has substantial likelihood of being, made against such party, and which entitles or would entitle such party to indemnification, insurance or warranty rights, protection or benefits pursuant to the terms of this Agreement.

15. *Inspection:* During the term hereof, the Company shall have the right, upon reasonable notice to Manufacturer, to observe and monitor Manufacturer's Quality Control program testing techniques as applied to the Products.

16. *Production Disruption:* If Manufacturer is unable to perform under the terms of this Agreement because of any form of casualty to its premises or equipment or by reason of any work stoppage of its employees or any other cause beyond its control, Manufacturer will cooperate with the Company to arrange for the transfer of the responsibility for the production of the Product to a qualified contractor at the expense of the Manufacturer.

17. *Assignment:* This Agreement shall not be assignable by either party without the prior written consent of the other party.

18. *Entire Agreement:* This Agreement constitutes the entire agreement of the Parties with respect to the subject matter herein and supersedes any and all other agreements, understandings, statements or representations, either oral or in writing.

19. *Force Majeure:* Should either of the parties hereto be directly affected in or prevented from the execution of this Agreement by force majeure events such as earthquake, typhoon, flood, fire, war and any other unforeseeable events whose occurrence and consequence cannot be prevented or avoided, the party encountering the force majeure shall, without delay, inform the other party by certified mail of the event, and within fifteen (15) days thereafter provide detailed information regarding the circumstance of the force majeure event and a valid certificate certifying the reasons by which this Agreement or any part hereof cannot be performed or the performance hereof may be delayed. By taking into account the extent of the impact of the force majeure event on the performance of the Agreement, the parties hereto shall consult with each other to decide whether this Agreement shall be terminated or if part of the obligations hereof shall be released or the performance thereof should be delayed.

20. *Governing Law:* The execution and performance of this Agreement is governed by the laws of the \_\_\_\_\_.

21. *Time of the Essence:* Time is expressly declared to be of the essence of this Agreement.

22. *Waiver and Amendment:* No breach of any provisions hereof can be waived unless in writing. Waiver of any one breach shall not be deemed to be a waiver of any other breach of the same or any other provision. This Agreement may be amended only by written agreement executed by the Parties.

23. *Severability:* If any part of this Agreement shall be determined to be invalid or unenforceable by any court of competent jurisdiction, such determination shall not affect the remainder of the Agreement.

24. *Settlement of Dispute:* Any disputes arising from the execution of, or in connection with, this Contract shall be settled through amicable consultation between the Parties. In the event that a settlement cannot be reached through consultation, the disputes shall be submitted to the \_\_\_\_\_. The arbitration shall be conducted in accordance with the arbitration procedures of the arbitration commission. The award rendered by the arbitration commission shall be final and legally binding on both parties hereto. The prevailing party shall be entitled to the payment of the arbitration fees.

25. *Language:* This Agreement shall be executed in Chinese and English versions and there shall be two copies of each of the two original versions. Each party thereto shall have a copy of the original versions. The Chinese version is provided to Manufacturer for references only and the text in English language shall be the legally binding document.

26. *Commencement of Agreement:* This Agreement and accompanying documents are required to be formally signed by the legal representatives of both parties hereto and approved by the relevant government authorities if such approval is required. This Agreement shall become effective from the date of such approval by the relevant government authorities if such approval is required; if no government approval is required, the Agreement shall be effective immediately after it is signed by both parties.

27. *Notice:* Any notice in connection with this Agreement shall be in writing and addressed as follows:

*The Company:* \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Tel: \_\_\_\_\_

Fax: \_\_\_\_\_

*Manufacturer:* \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Tel: \_\_\_\_\_

Fax: \_\_\_\_\_

Where any notice or communication between the parties hereto is served by cable, telex or facsimile, relating to the rights and obligations of either party, a written letter thereof shall follow.

28. *Other Matters:* Any matter not covered in this Contract shall be decided upon consultation of both

parties hereto and the result of such consultation shall become a supplement to this Contract. The supplement shall have the same legal effect as the Agreement.

29. *Authorization:* This Agreement is signed by the respective legal representatives of Manufacturer and the Company in Shanghai, People's Republic of China, on \_\_\_\_\_ and the representatives hereunder signed warrant that they have the full authority to execute this Agreement and bind the parties on whose behalf they are executing the Agreement.

Dated: \_\_\_\_\_ [The Company]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Dated: \_\_\_\_\_ [The Manufacturer]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

*Exhibit A*

Product Specifications

*Exhibit B*

Packaging Specifications

*Exhibit C*

Material Specifications

*Exhibit D*

Letter of Credit

## **DISTRIBUTION AND MARKETING AGREEMENT**

THIS AGREEMENT made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ by and between \_\_\_\_\_ (the “Company”) and \_\_\_\_\_ (the “Marketer”)

WHEREAS, Company is a manufacturer and seller of \_\_\_\_\_ products (hereinafter referred to as the “Products”); and

WHEREAS, Marketer is a trading company with the resources and expertise to distribute and sell Company’s Products in the People’s Republic of China; and

WHEREAS, Company desires to appoint Marketer as the distributor and marketer for the Products in the geographical territory defined herein and on the terms and conditions hereinafter set forth; and

NOW THEREFORE, in consideration of the mutual undertakings of the parties, IT IS AGREED AS FOLLOWS:

1. *Appointment as Marketer*

a) *Territory of Marketer.* Company hereby appoints Marketer, and Marketer hereby accepts such appointment, as Company’s sole and exclusive Marketer for the distribution of its Products in the Territory defined as the People’s Republic of China but excluding [\_\_\_\_\_] and any zone, sub-zone, region, or area within its jurisdiction or territorial boundaries including, but not limited to, [\_\_\_\_\_] (hereinafter referred to as the “Territory”).

b) *Alteration of Territory.* No alteration in the Territory and no agreement between Marketer and any third party purporting to alter the Territory shall be effective without the prior written approval of Company.

c) *Appointment of Others by Marketer.* Marketer shall be permitted to appoint sub-marketers, resellers, and sales representatives within the Territory for the sale of the Products. Any and all sub-marketers, resellers, and representatives appointed by Marketer are required to abide by the terms of this Agreement and specifically with respect to compliance with all laws and regulations concerning the sale of the subject Products. Marketer shall be fully responsible for the activities of all appointed sub-marketers, resellers, and representatives and shall indemnify the Company for any claim made with respect to the actions or omissions of any and all individuals or organizations appointed under this subsection.

d) *Modification of Product Line.* Company reserves the right at any time, in its sole and exclusive discretion and without recourse on Marketer’s part, (i) to modify or alter any of the Products and/or (ii) to add or to delete any Products from its product line, on the condition of not affecting confirmed orders.

e) *Grant of License.* Company hereby grants to Marketer a license to use Company’s trademarks, trade names and trade secrets in the course of performing its obligations under this Agreement. Company’s labels shall only be used for Company’s Products. Company’s trademarks, trade names and trade secrets can only be used in such a manner that their protective status is not jeopardized.

2. *Minimum Quota Requirement.* In order to maintain the exclusive territorial rights under this Agreement, Marketer is required to purchase a minimum volume of Products per quarter in an amount to be decided by Company on a quarterly basis (hereinafter referred to as the “Minimum Quota Requirement”). The Minimum Quota Requirement shall be set forth in an addendum to this Agreement and attached hereto



as Exhibit 1.

### 3. *Sales and Marketer*

a) *Sale of Products.* Company agrees to sell to Marketer the Products requested, subject to availability, subject to the credit terms specifically described in Section 4 hereunder, and subject to Marketer being in compliance with all of the terms and conditions of this Agreement. No order from Marketer for the Products shall be binding upon Company until accepted by Company, and nothing in this Agreement shall impose on Company the obligation to produce any Products or prevent Company from making such changes in any of its Products as Company in its sole judgment may decide.

b) *Prices of Products.* The prices to be paid by Marketer and discounts to be granted, if any, shall be established by both parties in good faith negotiation. Company shall endeavor to maintain reasonable prices for each of the Products.

### 4. *Terms of Sale*

a) *Expenses Paid by Marketer.* Unless otherwise agreed in writing between the parties, all Products shall be sold Ex Factory and Marketer shall pay all freight, sales taxes, insurance and duties on the Products. Specifically, Marketer is responsible for all taxes, tariffs, and fees imposed by the People's Republic of China including consumption tax, business tax, value added tax, customs duties, handling fees, and any other fee or levy imposed by governmental authorities. The Company, in its sole discretion, may require marketer to pay for the Products by wire transfer, irrevocable letter of credit (L/C), or on credit terms.

#### b) *Credit Terms*

(i) The Company may provide Marketer with credit for the purchase of the Products in an amount to be solely determined by the Company. The credit terms shall be for a maximum period of forty-five (45) days from the date of shipment from Company's place of business. If payment is not received on any Products within forty-five (45) days of shipment of the Products, Marketer agrees to pay interest on the balance due per shipment at a rate of ten percent (10%) per annum.

(ii) The Marketer shall provide the Company with a secured interest in the Products, its equipment, and other assets of Marketer as collateral for the credit provided to Marketer under this section. The secured interest shall be evidenced by a Security Contract, a copy of which shall be attached hereto as Exhibit 2, and registered with the relevant authorities.

#### c) *Letter of Credit Terms*

(i) The Company may also require Marketer to pay for the Products with an irrevocable letter of credit (hereinafter referred to as "L/C"). All L/C's shall be issued by an international, national, or regional bank in favor of Company. Reimbursement for the aforementioned sight draft shall be through a bank located within the United States of America, and the Negotiating Bank must be authorized to claim and receive reimbursement telegraphically.

(ii) All L/C's shall show the Company as beneficiary and payable in U.S. Dollars within 30 days of shipment of Products. Any and all charges incurred inside the People's Republic of China for the L/C

shall be paid for by Marketer.

(iii) All L/C's shall be subject to International Chamber of Commerce (ICC) rules (Brochure 400) unless otherwise agreed upon by Company and Marketer.

(iv) All L/C's allow partial shipments and partial payments. All L/C's shall show that all charges for amendments to the credit, including related communications expenses, which are the responsibility of the Marketer are for the account of the Marketer. All L/C's shall have an expiry date of no less than 30 days after the date of initiation to allow for order processing.

## 5. *Obligations of Marketer*

a) *Best Efforts to Sell.* Marketer shall use its best efforts to promote, sell and expend the sale of Products within the Territory through the use of an active and effective sales organization.

b) *Maintenance of Inventory.* Marketer shall maintain an inventory of the Products sufficient to meet the demand of customers throughout the territory in a timely manner.

c) *Governmental Approvals.* Marketer shall obtain and maintain all necessary government approval, licenses, permits, registration certificates, and other forms of approval which are necessary or advisable for the sale of the Products and the implementation of this Agreement within the Territory.

d) *Notification of Certain Facts.* Marketer shall promptly inform Company of any facts or opinions likely to be relevant in relation to the manufacture, sale, use or development of the Products within the Territory, including (but not limited to) those concerning safety and labeling requirements and the activities of Company's competitors.

e) *Limited to Territory.* Marketer shall not, directly or through any third person or entity (whether or not controlled by Marketer), establish a sales office, a warehouse, or a distribution center outside the Territory, or solicit orders for the Products from customers outside the Territory. Any such order obtained by Marketer shall be forwarded promptly by Marketer to Company without any other action on the part of the Marketer. This includes any and all sales or inquiries from customers located in the Municipality of Shanghai or its regions, zones, or subzones as defined in section 1(a).

f) *Costs and Commissions.* Marketer shall bear all costs of, and all liabilities related to its performance of this Agreement, including (but not limited to) the payment of commission or other compensation to its sales representatives.

g) *Advertising Expenses.* Marketer is responsible for all advertising and promotional expenses incurred in marketing the Products pursuant to this Agreement. Marketer shall provide the Company with a courtesy copy of all advertising for its records.

h) *No Unauthorized Representations.* Marketer is not authorized to make, and shall not make, any representations or warranties with respect to the Products except those representations and warranties authorized in writing by Company. Marketer is fully responsible for compliance under the Advertising Law of the People's Republic of China (adopted October 27, 1994), Law of the People's Republic of China on the Protection of the Rights and Interests of Consumers (adopted October 31, 1993), and the Law of the People's Republic of China Against Unfair Competition (adopted September 2, 1993). Marketer shall

indemnify and hold Company harmless from all claims, demands, administrative or governmental penalties or fines, actions, causes of action, fees, costs, attorneys' fees and expenses arising from any and all promotional sales or marketing activities, representations, warranties, and statements (written or verbal) made by Marketer or any of its agents, employees, representatives and/or assigns in relation to the Products, this Agreement or the Company.

i) *Compliance with Law.* In addition to the laws and regulations set forth in section 5(h), Marketer shall comply with any and all other laws and government regulations of the People's Republic of China concerning customs, taxation, price controls, trade involving items containing \_\_\_\_\_, and any and all laws which may in any way affect the sale of the Products.

j) *Preservation of Goodwill.* Marketer shall at all times conduct itself in an appropriate manner, so as not to injure the business, goodwill, reputation or good standing of Company.

k) *Quarterly Report and Business Plan.* Marketer shall provide Company with a quarterly report and business plan which outlines (1) the sales of Company's Products during the preceding quarter; (2) the promotional activities of Marketer during the preceding quarter including the names and addresses of actual and potential customers; (3) the business environment in the Territory including a discussion of the activities of Company's competitors, the laws and governmental policies affecting the sale of the Products, and the economic conditions in the Territory affecting the sale of the Products; and (4) anticipated sales for the current quarter. This report shall be provided to Company by the end of each quarterly month of the calendar year (i.e., March, June, September, and December).

l) *Compliance with Corruption Laws.* Marketer shall comply with the U.S. Foreign Corrupt Practices Act and China's anti-corruption laws and shall require any sub-marketer, reseller, or representative to comply with said laws as well.

## 6. *Obligations of Company*

a) *Provide Information.* Company shall furnish to Marketer such information and instructions as may be reasonably required by Marketer to promote the sale of the Products. The quantities so provided shall be determined by Company and shall be provided with or without charge at the Company's sole discretion.

b) *Exclusive Right to Distribute within Territory.* Company shall not during the term of this Agreement either directly or indirectly, sell or distribute any of the Products within the Territory except through Marketer.

c) *No Engagement of Another within Territory.* Company shall not commission or engage any other agent, representative or distributor engaged in a business similar to that of Marketer for the purposes of selling the Products during the term of this Agreement within the Territory.

d) *No Providing Products to be Sold in Territory to Another.* Company shall not provide its Products to any other agent, representative or distributor directly or indirectly under any other label to be sold in the Territory.

e) *Invoice in Dollars.* Company shall invoice all orders directly to Marketer in U.S. Dollars at prices in effect at the time the order is placed.

f) *Provision of Documents.* All essential documents for each order shall be sent by the Company to Marketer.

g) *Domestic Facility.* Company shall maintain at its Los Angeles facilities, or other location designated by Company, a sufficient level of inventory to meet the demand of customers of Marketer.

## 7. *Intellectual Property, Trade Secrets and Non-Competition*

a) *Prohibition on Other Similar Products.* Marketer agrees that, during the term of the Agreement, and any renewal hereof, neither Marketer nor any of its representatives, agents, or employees acting under Marketer's direction or within the scope of authority conferred upon such representative, agent, or employee of Marketer, shall sell, offer for sale, or act as a representative or agent within the Territory with respect to the sale of any merchandise of the same nature as existing Products.

b) *Prohibition on Other Similar Businesses.* Marketer agrees that it shall not, directly or indirectly, own, control, operate, manage, participate in any sole proprietorship, corporation, partnership or entity whose primary business is of the same nature as the business of Company.

c) *Acknowledgment of Intellectual Property Rights.* Marketer acknowledges and agrees that all trademarks, trade names, service marks, copyrights, patents, trade secrets, trade dress, designs, artwork, specifications, and other intellectual property are exclusively owned, on a worldwide basis, by Company (hereinafter referred to as "Intellectual Property").

(i) Marketer agrees that none of the Intellectual Property will be used for its benefit outside of its work for the Company either during the period of this Agreement or thereafter.

(ii) If Marketer is required to register the Intellectual Property with the governmental authorities in the Territory, such registration shall be in the name of the Company only.

(iii) Marketer shall actively police the marketplace and shall immediately contact the Company if it suspects any person or entity is misusing Company's Intellectual Property. Marketer shall assist Company in enforcing Company's rights to the Intellectual Property in the Territory.

## 8. *Term, Termination and Conditions for Extension of Term*

a) *Term.* The term of this Agreement is for a period of three (3) years commencing on the date of execution of this Agreement.

b) *Termination Upon Notice.* Company may terminate this Agreement, effective upon thirty (30) days prior written notice, under the following circumstances:

(i) *Material Breach.* In the event Marketer fails to remedy a material breach of a covenant or commitment under this Agreement, which failure shall continue for thirty (30) days after receipt of written notice to Marketer from Company of such breach; provided, however, that if such breach is not willful and is of a nature such that it can be cured, but not within such thirty (30) days, then the commencement by Marketer of the prompt and diligent curing of such default within said thirty (30) days shall constitute the "remedy" of any such breach if the breach is cured within sixty (60) days of such written notice. Marketer

shall also reimburse Company for any actual damages suffered by Company in connection with such breach within a reasonable time after its commitment of same.

(ii) *Death or Cessation of Participation by Majority Owners.* In the event of; (i) the death of principals and/or majority owners of Marketer, or their incapacitation for a period of ninety (90) or more substantially consecutive days, such that said principals or majority owners are unable to perform their normal day-to-day functions for Marketer during such ninety (90)-day period; or (ii) the principals for majority owners of Marketer cease for any reason whatsoever (other than for normal vacation periods) to participate actively in the day-to-day management and affairs of Marketer for a period of thirty (30) substantially consecutive days.

c) *Termination—Failure to Meet Quota.* If Marketer fails to meet any quota set forth in this Agreement or addendum hereof, the Company may, at its option, immediately terminate the Agreement. In addition, if Marketer fails to pay for the Products in accordance with the terms and conditions set forth in Section 4 herein, Company may, at its option, immediately terminate this Agreement.

d) *Termination—Bankruptcy.* This Agreement shall terminate automatically if Marketer has a receiver and/or manager appointed for, or execution levied upon, all or any part of its business or assets; proceedings are commenced for the voluntary or involuntary bankruptcy or liquidation of Marketer; or Marketer becomes unable to pay its debts as they fall due.

e) *Renewal.* This Agreement may be renewed, at the option of the Company, for additional one (1) year periods, provided that a Quota Schedule for each such renewal period is determined on or before the expiration date of the initial term hereof and any succeeding renewal hereof.

f) *Definition of Material Breach.* For the purposes of this Section 8, the term “material breach” shall include, without limitation, a specific action or omission or a series of related actions or omissions which result in actual damages to the other party in excess of [Ten Thousand U.S. Dollars (US\$10,000)] for a single action or the series of actions taken as a whole. “Material breach” shall also include fraud, any willful failure on the part of the Marketer to deliver the Products to customers, and any violation of Sections 4 (payment), 5 (obligations), or 7 (intellectual property) hereof.

g) *Cooperation.* In the event that Company terminates this Agreement pursuant to this Section 8, the parties agree to cooperate in good faith to facilitate the transition of the business for the Products in the Territory to Company or any third person or entity designated by Company, and the post-termination non-competition obligation under Section 7.2 shall commence as of the effective date of such termination.

## 9. *Effects of Termination*

a) Upon the expiration or early termination of this Agreement for any reason whatsoever, the following shall take effect;

(i) All licenses, interest or rights granted to Marketer under or pursuant to this Agreement shall immediately cease and Marketer shall make no further sales of Products.

(ii) All Intellectual Property and promotional materials shall be returned to the Company.

(iii) All Products that have not been paid for shall be returned to the Company.

b) Without prejudice to a party's right to claim any actual damages or other claims for breach of this Agreement, the early termination or expiration of, or the failure to renew this Agreement shall not, in and of itself, entitle a party to any compensation or damages of any kind or character whatsoever, whether on account of the loss by Company or Marketer of present or prospective profits or discounts on sales or anticipated sales, or expenditures, investments or commitments made in connection with the distribution of the Products or in connection with the establishment, development, or maintenance of Marketer's business, or on account of any other cause or reason whatsoever.

10. *Personal and Corporate Guarantee.* The principal of Marketer, \_\_\_\_\_, shall provide the Company with a guarantee with respect to the obligations under this Agreement and specifically with respect to the repayment of monies under this section. The guarantee shall be evidenced by a written Guarantee Contract, a copy of which shall be attached hereto as Exhibit 4.

11. *Exhibits.* This Agreement shall have the following Exhibits, each of which forms an integral part of this Agreement:

<i>EXHIBIT</i>	<i>MATTER</i>
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1	Minimum Quota Requirement
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2	Security Contract
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3	Guarantee Contract
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12. *General Terms and Conditions*

a) *Assignment.* This Agreement is not assignable by either party without the prior written consent of the other party hereto except that Company may assign the Agreement to any subsidiary, affiliate, or commonly controlled company or as part of a sale of substantially all of its assets.

b) *Entire Agreement; Modification.* As of the date of the parties' execution hereof, this Agreement, the Security Contract, and the Guarantee Contract contain the entire and only agreement between the parties with respect to the subject matter hereof and any representation, promise, or condition not incorporated herein shall not be binding upon either party. No change, modification or waiver of this Agreement or any provision hereof or right to act hereunder shall be binding unless made in writing and signed by both parties hereto.

c) *Independent Contractor.* Marketer shall act only as an independent contractor of Company, and not as an agent or employee of Company. It is not the intent of the parties to create under this Agreement any joint venture, partnership, business association, or other form of business entity. Except as otherwise provided herein, in no event shall Company be liable in any manner for the acts and omissions of Marketer to compensate its employees, representatives, and agents. Marketer shall have no right to legally bind Company in any manner whatsoever.

d) *Governing Language.* This Agreement, the Security Contract, and the Guarantee Contract shall have an English version and Chinese version, both being equally valid and enforceable.

e) *Cooperation of Marketer.* Marketer shall sign and deliver all instruments and other documents necessary or useful to carry out or confirm the intentions of the parties as expressed herein and shall assist and fully cooperate with Company and its designees and agents in all matters relating to this Agreement.

f) *Disputes.* The parties hereto shall attempt to settle any dispute arising out of or relating to this Agreement in an amicable manner. In the event that such attempts should fail, then the parties hereto agree that any dispute or claim arising out of this Agreement, directly or indirectly, or arising out of the relationship of the parties hereto, shall be resolved before the International Arbitration Court of the International Chamber of Commerce (Paris), pursuant to the ICC's arbitration rules existing at the time of the application. This agreement shall be governed by the laws of the State of California, United States of America. Arbitration shall be held in Paris, France, or at another mutually agreed upon location. The prevailing party shall be entitled to an award of arbitration expenses including an award of attorneys' fees.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first hereinabove written.

MARKETER                      COMPANY

By: \_\_\_\_\_ By: \_\_\_\_\_

Name: \_\_\_\_\_ Name: \_\_\_\_\_

Title: \_\_\_\_\_ Title: \_\_\_\_\_

## SECURITY AGREEMENT

This SECURITY AGREEMENT is made on \_\_\_\_\_, \_\_\_\_\_ between \_\_\_\_\_ (the "Mortgagee") and \_\_\_\_\_ (the "Mortgagor")

### WHEREAS:

1. Simultaneously with the execution and delivery of this Security Agreement, Mortgagor, as distributor and marketer, and Mortgagee, as manufacturer and seller, are entering into that certain Distribution and Marketing Agreement (the "Distribution Agreement") pursuant to which Mortgagee agrees to sell to Mortgagor, and Mortgagor agrees to purchase, \_\_\_\_\_ products ("Products") in the geographical territory defined in such Distribution Agreement.

2. As security for payment under the Distribution Agreement, the Mortgagor desires to grant to Mortgagee, and Mortgagee agrees to accept such grant, a security interest in form of mortgage (the "Security Interest") on the Collateral described in Section 2(a).

NOW THEREFORE, Mortgagee and Mortgagor have agreed through consultation to enter into this Security Agreement on the terms and conditions set forth below:

1. *Definitions.* Unless otherwise defined in this Security Agreement, certain terms are defined as follows:

- a) "Collateral" is defined in Section 2(a).
- b) "Distribution Agreement" is defined in Recitals.
- c) "Event of Default" means any of the events listed in Section 9(a).
- d) "Law" means all laws, decrees, regulations, rules, announcements, notices, opinions, replies, and explanations, etc. promulgated or circulated by China's National People's Congress or the Chinese government and its subordinate ministries, commissions, provincial departments, bureaus and other agencies, or China's People's Supreme Court. People's Congress shall include all levels of people's congress including national, provincial, municipal, prefectural, county and district; government agencies shall cover government agencies at all levels including the State Council, ministries, provinces, municipalities, prefectures, counties and districts.
- e) "Mortgage Duration" means the valid duration of this Security Agreement stipulated in Section 12(a).
- f) "Mortgage Ratio" means the ratio between the amount of the debt secured by mortgage and the value of the Collateral, as stipulated in Section 3(e) of this Security Agreement.
- g) "Notice of Default" means a written notice of an Event of Default to the Mortgagor issued by the Mortgagee pursuant to Section 9(b) of this Security Agreement.
- h) "Obligations" means the obligations secured hereunder, whether now existing or hereafter arising, including without limitation the principal of the credit, interest and all other fees payable by the Mortgagor under the Distribution Agreement, liquidated damage or default interest, indemnity payment for damage suffered and expenses incurred in connection with the exercise of the mortgages (including without limitation any agent fees, evaluation costs, processing fees, accounting fees, court fees and attorney fees).
- i) "Other Documents" means any other documents executed by the Mortgagor in connection with the Distribution Agreement and this Security Agreement, including without limitation the Guarantee Contract and any insurance policies naming the Mortgagor as the beneficiary.
- j) "PRC" of "China" means People's Republic of China. For purpose of this Security Agreement, the definition of PRC shall exclude Hong Kong Special Administrative Zone, Macao and Taiwan.
- k) "Products" is defined in Recitals.
- l) "Registration Authorities" means any government authorities in charge of mortgage registration in \_\_\_\_\_ Municipality.
- m) "Security" means mortgage, pledge, lien and/or any other third party security.
- n) "Security Interest(s)" is defined in Recitals.
- o) "USA" means the United States of America.



## *2. Security Interests.*

a) As collateral security for the timely and full payment for any amount due under the Distribution Agreement, the Mortgagor hereby grants, for the Mortgage Duration, to the Mortgagee for its benefit a Security Interest in, all of the Mortgagor's right, title and interest in and to the following, whether now or hereafter existing or acquired (the "Collateral"):

(i) all inventory in all of its forms, wherever located, including without limitation Products delivered by the Mortgagee and held by the Mortgagor for sale from time to time in accordance with Section 4(c) of the Distribution Agreement, packaging materials and work in process, materials used and consumed in the Mortgagor's business and all accessions thereto (collectively as "Inventory"), and

(ii) all other assets in all of its forms, wherever located, including all machinery, furnishings, vehicles and all parts thereof and accessions, additions, attachments, improvements, substitutions and replacements thereto and therefor (collectively as "Assets").

b) This Security Agreement shall create a continuing security interest in the Collateral and shall

(i) remain in full force and effect until termination of the Distribution Agreement and the payment in full thereunder;

(ii) be binding upon the Mortgagor and its successors, transferees and assigns, and

(iii) inure, together with the rights and remedies of the Mortgagee hereunder, to the benefit of the Mortgagee and its successors and assigns.

## *3. Mortgage Registration.*

a) *Registration of Mortgaged Collateral.* In order to perfect the Security Interests created herein, within five (5) working days after the first and each of the following deliveries of the Products, the Mortgagor shall (or if so requested by the Mortgagee, the Mortgagor shall entrust the Mortgagee or any third party designated by the Mortgagee to) register the mortgaged Collateral with the following Registration Authorities, as the case may be, with all expenses in connection therewith to be borne by the Mortgagor:

(i) [\_\_\_\_\_] Municipal Administration of Industry and Commerce for mortgage on Inventory, machinery, furnishings];

(ii) [\_\_\_\_\_] Municipal Public Security Bureau, Vehicle Administration Division, for mortgage on vehicles].

b) *Foreign Exchange Security Registration.* When required by Law, within five (5) working days after execution of this Security Agreement, the Mortgagor shall (or if so requested by the Mortgagee, the Mortgagor shall entrust the Mortgagee or any third party designated by the Mortgagee to) register this Security Agreement, which is a foreign exchange security agreement, with the State Administration of Foreign Exchange, \_\_\_\_\_ Branch, and obtain a certificate in connection therewith.

c) *Delivery of Original Certificate.* Within five (5) days after completion of each of the aforementioned mortgage registration and corresponding foreign exchange security registration, the Mortgagor shall deliver the original registration certificates to the Mortgagee (or its designated agent) for possession and safekeeping. Except as otherwise provided in Section 3(d), the Mortgagee shall possess and keep such original registration certificates for the valid duration of this Security Agreement.

d) *Possession of Documents by Mortgagor.* If, due to government inspection, renewal of certificates or other necessities in the ordinary course of business, the Mortgagor requires temporary possession of the documents in the Mortgagee's (or its designated agent's) possession and safekeeping, the Mortgagor may at any time make its request in writing to the Mortgagee (or its designated agent) three (3) days prior to the date it requires such documents. The Mortgagor shall specify the purpose and duration of such temporary possession and the Mortgagee shall have absolute discretion whether or not to agree to the Mortgagor's request.

#### 4. *Value of the Collateral and Mortgage Ratio.*

a) *Value of Inventory.* Unless otherwise provided by the Law, for the purpose of mortgage registration, the value of the Inventory shall be determined in the following way, whichever amount is larger:

(i) at any given time, the sum of the book value of all accumulated Inventory in stock plus all outstanding account receivables at such time; or

(ii) at any given time, the accumulated amount of the contractual value of the delivered Products minus the accumulated amount of the payment made by the Mortgagor to the Mortgagee up to such time; or

(iii) the annual estimated average amount of the contractual value of the Products delivered in every three months.

b) *Value of Assets.* For the purpose of mortgage registration, the Mortgagor and the Mortgagee agree that the total value of the Assets shall be US \$\_\_\_\_\_.

c) *Asset Appraisal Report.* In the event that the parties disagree on the value of the Collateral, the Mortgagor shall, at its cost, engage an asset appraisal agency to issue an asset appraisal report on the value of the Collateral. Such asset appraisal agency shall commence appraisal on each of the Collateral only after receiving written confirmation from the Mortgagee. In the event the Mortgagee disputes any appraisal report or result thereof, the Mortgagor shall re-appoint another asset appraisal agency under the instruction of the Mortgagee to conduct another value appraisal.

d) *Effect of Valuation.* The Mortgagee and the Mortgagor hereby agree that the value of the Collateral under Section 4(a) and the appraised value of the Assets for the purpose of mortgage registration under Section 4(b) shall not affect the value of the Collateral determined in accordance with the Law and this Security Agreement at any time when the Mortgagee exercises its rights hereunder.

e) *Mortgage Ratio.* The Mortgage Ratio of the Collateral hereunder is 100%, except as otherwise provided by the Law.

## *5. Possession and Management of the Collateral.*

a) *Mortgagor's Possession of Collateral.* Except as otherwise provided in this Security Agreement, the Collateral shall be held by the Mortgagor for the Mortgage Duration. The Mortgagor may sell or otherwise dispose of the Products in accordance with the Distribution Agreement. While holding the Collateral, the Mortgagor shall use its best efforts to maintain the well-being and integrity of the Collateral. The Mortgagee shall be entitled to enter and inspect the premises of any of the Collateral at any time. The Mortgagor shall not refuse or delay in responding to any reasonable demand by the Mortgagee for entry and inspection and shall provide all possible assistance.

b) *Damage to Collateral.* In the event the Collateral are damaged or destroyed in accidents, the Mortgagor shall promptly notify the Mortgagee of the circumstances and take measures to prevent any further damage. If, due to such damage or destruction or otherwise, the Collateral are no longer adequate to secure the Obligations, the Mortgagor shall, from time to time, and at the request of the Mortgagee, provide a new Security to make up for the shortfall.

c) *Inadequate Security.* In the event the value of the Collateral shall decrease and cease to be adequate to secure the Obligations due to the acts of government, the Mortgagor shall promptly notify the Mortgagee and shall, from time to time, and at the request of the Mortgagee, provide a new Security to make up for the shortfall.

## *6. Insurance.*

a) *Coverage for Collateral.* The Mortgagor shall, within five (5) days after delivery of the first batch of Products and obtaining titles to any Assets, or otherwise within the time required by the Mortgagee, purchase or cause to be purchased insurance coverage for all the Collateral.

b) *Amount.* The amount of insurance coverage shall not be less than the value of the Collateral as stipulated in Section 4(a) or any other value as determined by the Mortgagee from time to time, which amount may be higher or lower than the value of the Collateral;

c) *Assignment to Assignee.* The Mortgagor, as assignor, shall assign to the Mortgagee, as assignee, all of its rights, interests, and benefits under such insurance policies so that the Mortgagee will enjoy all rights of the insured under such insurance policies.

d) *Delivery of Policy.* Within five (5) days of the date of issuance of each insurance policy, the Mortgagor shall deliver the original policy to the Mortgagee (or its designated agent) for possession and safekeeping. Except as otherwise provided in Section 3(d), the Mortgagee shall possess and keep such insurance policies for the valid duration of this Security Agreement.

e) *Expiration of Policy.* The Mortgagor shall not withdraw or suspend any insurance policy during the Mortgage Duration. Upon the expiration of any insurance policy prior to the expiration of the valid duration of this Security Agreement, the Mortgagor shall renew and maintain or cause to be renewed and maintained such insurance policy one month in advance in accordance with the provisions of this Section.

f) *Mortgagor's Obligations.* The Mortgagor shall perform all its obligations under the insurance policies (including without limitation timely payment of insurance premiums of itself or causing the others to make timely payment thereof) to maintain valid insurance coverage on the Collateral during the entire

Mortgage Duration.

g) *Mortgagor's Payment of Premiums.* Insurance premiums and all related expenses shall be borne by the Mortgagor.

h) *Mortgagee's Rights to Proceeds.* Upon the occurrence of any insured event under any such insurance policy, the Mortgagee shall have the right at any time to pursue claims with the insurance company as the first named beneficiary and to possess, accept and control all insurance proceeds. The Mortgagee shall have absolute discretion over the use of insurance proceeds, which uses may include, without limitation, payment or prepayment of all or part of the Obligations, and repair or replacement of any damaged Collateral. The Mortgagor shall not be entitled to raise any objection to the Mortgagee's decision over this issue.

i) *Mortgagor's Failure to Perform.* In the event the Mortgagor fails to perform its obligations under Section 6(a), 6(c) and 6(d) above, the Mortgagee shall be entitled to insure the Collateral in its own name or in the name of the Mortgagor or to continue payment of insurance premiums on existing insurance policies. Any insurance premium shall be borne by the Mortgagor, and any premium or fees paid by the Mortgagee shall be reimbursed in full by the Mortgagor. Any loss (including any loss of interest calculated in accordance with the interest calculation formula under the Distribution Agreement) suffered by the Mortgagor resulting therefrom shall also be borne by the Mortgagor.

7. *Mortgagor's Representations and Warranties.* Mortgagor hereby represents and warrants as follows:

a) *Duly Organized.* The Mortgagor is a [limited liability company] organized under Chinese Law. All formalities of approval and registration for its establishment have been completed and certificates for such approval and registration have been issued by the approval and registration authorities empowered for such approval and registration. The Mortgagor has the right to possess, make use of, dispose of its property and assets and engage in all business activities permitted by its business license.

b) *Authority.* The Mortgagor has full power and authority for the execution and performance of this Security Agreement, the Distribution Agreement and Other Documents. Except as otherwise provided in Section 3(a) and 3(b), all formalities for authorization, approval, consent, license, registration and filing necessary for the Mortgagor's execution and performance of this Security Agreement, the Distribution Agreement and Other Documents have been completed.

c) *Genuineness.* All documents and information provided and produced by the Mortgagor to the Mortgagee in connection with, or required by, this Security Agreement, the Distribution Agreement and Other Documents are genuine and reliable and without any forgery or concealment of truth.

d) *Full Rights in Collateral.* Subject to this Security Agreement, the Mortgagor has the full right, title and interests in the Collateral. There is no Security on the Collateral other than the Security Interest created under this Security Agreement. No individual, legal person, organization, or non-legal person entity has any claim over the Collateral. The Collateral have not been adversely affected by any Law, court judgment or ruling, or government policy.

e) *Mortgagee's Right to Possession.* Within the valid duration of this Security Agreement, in the event the Mortgagee is entitled to exercise its rights in connection with the Security under this Security Agreement, the Mortgagee may at any time enter, take possession and use the Collateral.

f) *No Pending Litigation.* The Mortgagor and/or the Collateral are not involved in any litigation, arbitration or administrative sanctions.

#### 8. *Mortgagor's Covenants.*

a) *Covenants.* The Mortgagor covenants with the Mortgagee that, during the Mortgage Duration, it will:

(i) continue to perform the obligations under all Security Agreements and agreements (including without limitation the obligations under this Security Agreement, the Distribution Agreement and the Other Documents) to which it is signatory;

(ii) Unless permitted by the Distribution Agreement or otherwise with a prior written consent of the Mortgagee, not dispose of or lease out or create or permit any other Security that may affect the rights and interests of the Mortgagee on all or any part of the Collateral;

(iii) abide by and carry out all Laws related to the Collateral and present to the Mortgagee within three (3) days of receipt of any notice, directive or suggestion issued or promulgated by any relevant authority regarding the Collateral, and at the same time abide by such notice, directive or suggestion, or raise objections thereto or file appeal or petition therefor or express an opinion thereon in accordance with the Mortgagee's instructions or with the consent of the Mortgagee;

(iv) in the event a third party illegally encroaches upon or attempts to encroach upon any of the Collateral, take all measures necessary to prevent such illegal encroachment or to repossess from such third party such Collateral;

(v) timely pay all taxes and fees levied in connection with the Collateral by relevant departments of the government and the municipal administrative department;

(vi) notify the Mortgagee promptly of any event that may affect the Mortgagor's ownership of all or any portion of the Collateral or that may affect any guarantee, obligation or mortgage created under this Security Agreement.

b) *No Interruption of Rights.* The Mortgagor agrees that the Mortgagee's exercise of its rights in connection with the Security over the Collateral pursuant to the terms of this Security Agreement (including without limitation, the possession, use, or disposal of and the enjoyment of benefits from the Collateral) shall not be interrupted or obstructed by the Mortgagor or any successor or agent or receiver of the Mortgagor or any other person through legal or non-legal procedures. In the event of any such interruption or obstruction, the Mortgagor and any successor or agent or receiver of the Mortgagor shall take all measures necessary to thwart such interruption or obstruction.

c) *Mortgagor's Protection of Security Interest.* The Mortgagor warrants to the Mortgagee that, in order to protect or perfect the Security under this Security Agreement, the Mortgagor will honestly execute, and cause any other party with an interest in the Collateral to execute, all rights certificates, Security Agreements, and/or perform and cause such other interested party to perform actions required by the Mortgagee, and facilitate the exercise of rights and authorized actions by the Mortgagee under this Security Agreement, execute with the Mortgagee or parties designated by the Mortgagee all documents and registration related to assignment or any amendment to ownership certificates, and provide to the

Mortgagee, within a reasonable period of time, all notices, orders and decisions in connection with the Collateral that the Mortgagee may deem necessary.

d) *Notification of Litigation.* In the event the Mortgagor and/or the Collateral are, or are likely to be, involved in any litigation, arbitration or administrative punishment, the Mortgagor will immediately notify the Mortgagee in writing and at all times deal with such litigation, arbitration or administrative punishment in accordance with written instructions from the Mortgagee (or in the absence of written instructions, in the most reasonable method or way with a view toward protecting the Collateral and their value).

e) *Performance of Representations; Indemnity.* The Mortgagor warrants to the Mortgagee that, in the interest of the Mortgagee, the Mortgagor will abide by and perform all warranties, undertakings, agreements, representations and conditions. In the event the Mortgagor fails to perform, or fails to perform completely, such warranties, undertakings, agreements, representations and conditions, it will indemnify the Mortgagee for all losses suffered as a result thereof.

#### 9. *Events of Default.*

a) *Definition.* Any one of the following shall constitute an Event of Default under this Security Agreement:

(i) The Mortgagor fails to pay in full when due any amounts required by the Distribution Agreement;

(ii) Any representation or warranty made by the Mortgagor in Section 7 of this Security Agreement is untrue or contains falsehood or errors, and/or the Mortgagor is in breach of any warranty set forth in Section 7 of this Security Agreement;

(iii) The Mortgagor is in breach of any covenant set forth in Section 8 of this Security Agreement;

(iv) The Mortgagor fails to follow any instruction given by the Mortgagee pursuant to any provision of this Security Agreement, or the Mortgagee is unable to exercise any of its rights under this Security Agreement;

(v) The Mortgagor abandons the Collateral or, without the prior written consent of the Mortgagee, mortgages, pledges, permits liens on, donates, lends, entrusts, or otherwise disposes of the Collateral;

(vi) The Mortgagor fails to timely pay any taxes or fees (including without limitation any insurance premium, land use fees, and registration fees) related to the Collateral;

(vii) Any loan, guarantee, indemnity, undertaking or other repayment obligation of the Mortgagor in favor of any other party (i) is accelerated due to default or any other reason; or (ii) is due but cannot be repaid or performed by the Mortgagor, such that the Mortgagee believes that the Mortgagor's ability to perform its Obligations under the Distribution Agreement and this Security Agreement has been affected;

(viii) Any dissolution, liquidation, bankruptcy, or closure of the Mortgagor due to any merger, restructuring, acquisition, court judgment or ruling, award by arbitration tribunal or administrative order of

government department, or any assignment of a receiver or trustee to handle all or part of the Mortgagor's assets, or all or any portion of the Mortgagor's assets have become subject to custodial control pursuant to any court judgment or ruling, award by arbitration tribunal or administrative order of government department;

(ix) The Mortgagor is unable to pay any other debts in excess of [US \$\_\_\_\_\_] or its equivalent in other currencies;

(x) As a result of any new Law, this Security Agreement or one or more of its main provisions becomes unlawful or the Mortgagor becomes unable to continue to perform any one or more of its Obligations under this Security Agreement;

(xi) Any consent, license, approval, registration or authorization from any government department that is necessary to make this Security Agreement enforceable, lawful or valid is withdrawn, suspended, invalidated or substantially revised;

(xii) Any material adverse change occurs with respect to the business prospect or all or any portion of the assets owned by the Mortgagor, such that the Mortgagee believes that the Mortgagor's ability to perform its Obligations under the Distribution Agreement and this Security Agreement has been affected;

(xiii) All or any portion of the Mortgagor's assets are, or are likely to be, confiscated, seized, forcefully acquired (whether with compensation or not) or damaged or destroyed, and for any reason such situation is not resolved within ten days, such that the Mortgagee believes that the Mortgagor's ability to perform its Obligations under the Distribution Agreement and this Security Agreement has been affected;

(xiv) The Mortgagor (or its investors) changes the Mortgagor's equity structure, asset structure, method and scope of production and operation without the prior written consent of the Mortgagee;

(xv) The successor, trustee or receiver of the Mortgagor refuses to perform any of its Obligations under the Distribution Agreement and this Security Agreement;

(xvi) Any of the mortgage registrations for the Collateral with the Registration Authorities or any other registration including those without limitation the foreign exchange registration set forth in Section 3(b) hereunder (including registration for any modifications) cannot be completed for any reason; or the Registration Authorities and any other government agency is unable to provide the Mortgagee with certification of any registration of the mortgage (including registration for any modifications) under this Security Agreement;

(xvii) The Mortgagor breaches any other provision of this Security Agreement due to its action or inaction;

(xviii) Any other situation which affects the Mortgagee's rights under the Law to exercise its rights in connection with the Security under this Security Agreement.

b) *Notification of Event of Default.* Upon becoming aware of, or discovering the occurrence of, any Event of Default listed in Section 9(a) or any event that may lead to an Event of Default, the Mortgagor shall immediately notify the Mortgagee both orally and in writing.

c) *Mortgagee's Demand of Repayment.* The Mortgagor agrees that, unless any Event of Default listed in Section 9(a) that has already occurred has been resolved to the satisfaction of the Mortgagee or the Mortgagee for any reason temporarily waives all or part of any of its rights under this Security Agreement, the Mortgagee may, at any time during or after the occurrence of any Event of Default under Section 9(a) of this Security Agreement, notify the Mortgagor in writing demanding immediate repayment of all of the principal, interest, fees and any other due amounts under the Distribution Agreement and/or issue a Notice of Default to the Mortgagor and dispose of the Collateral pursuant to Section 10 of this Security Agreement.

d) *No Waiver.* Within the Mortgage Duration, any inaction, grace or delay in exercising any of its rights and interests under this Security Agreement by the Mortgagee with respect to any Event of Default by the Mortgagor shall not damage, affect or limit any rights and interests of the Mortgagee under the Law or this Security Agreement, or any rights and interests of the Mortgagee under the Distribution Agreement. Any inaction, grace or delay in exercising any of the Mortgagee's rights and interests shall not be regarded as an explicit or implicit authorization by the Mortgagee for any Event of Default of the Mortgagor, nor shall it be regarded as evidence of the Mortgagee's position with respect to the Mortgagor in connection with the Event of Default under the Law or this Security Agreement.

#### 10. *Disposition of Collateral; Notice of Default.*

a) *Mortgagee's Rights in Collateral.* The Mortgagee shall be entitled to exercise its rights in connection with the Collateral under this Security Agreement upon determination at its sole discretion that one or more Event of Default identified in Section 9(a) of this Security Agreement has occurred or is occurring. When exercising such rights the Mortgagee shall issue a Notice of Default to the Mortgagor and notify the Registration Authorities concurrently.

b) *Disposition of Collateral.* The Mortgagee shall be entitled to dispose of all or any part of the Collateral within the stipulations of the Law and this Security Agreement. The Mortgagor and the Mortgagee both agree that after issuance of a Notice of Default by the Mortgagee, unless the Mortgagor objects thereto in writing within five (5) days of the delivery of the Notice of Default, the Mortgagor and the Mortgagee shall be deemed to have agreed that the Mortgagee shall have discretion to dispose of such Collateral in any of the following ways:

(i) Commission any legally registered independent intermediary to sell all or any portion of the Collateral hereunder with reference to market prices in either a public or a private sale; and/or

(ii) Commission any legally registered independent auctioneer to conduct an auction of all or any portion of the Collateral hereunder in accordance with the Law; and/or

(iii) Commission any legally registered independent asset appraisal agency to evaluate part or all of the Collateral hereunder, and set off the Obligations of the Mortgagor in favor of the Mortgagee with all or a portion of such Mortgaged Equipment based on such valuation; and

(iv) Use any other lawful method to dispose of all or any portion of the Collateral hereunder, whereupon the Mortgagee may transfer to others all title and interest to Collateral free and clear of any rights of the Mortgagor.

c) *Agreement Regarding Disposition, Value and Payment; No Liability of Mortgagee.* The Mortgagee and the Mortgagor may, from time to time by agreement, (i) determine the manner of



disposition of the Collateral, or (ii) determine the value of the Collateral; and the Collateral shall be taken as the payment of all or any part of the Obligations of the Mortgagor to the Mortgagee. The Mortgagee shall have no liability for exercising any of its rights hereunder, and shall have no obligation to protect against diminution in value of the Collateral or any liability for injury to such Collateral.

d) *Appointed Successor.* The Mortgagee may appoint any natural person, legal person, institution, organization or non-legal person entity as its appointed successor to exercise its right to dispose of the Collateral.

e) *Disputes Regarding Disposition.* If the Mortgagor and the Mortgagee fail to reach agreement on the disposition of the Collateral hereunder as stipulated in Section 10(b) hereunder or by any other method, the Mortgagee may at any time enforce Security in accordance with Section 14 under this Security Agreement.

f) *First Priority Mortgage.* The Mortgagee shall have first priority mortgage rights to receive all proceeds of any disposed Collateral until all Obligations have been paid in full.

g) *Cooperation of Mortgagor.* In the event that the Mortgagee exercises its rights to possess, use, or dispose of the Collateral hereunder, the Mortgagor (or its successor or agent) shall not raise any objections, defenses or create any obstacles and shall use its best efforts to assist the Mortgagee in exercising its rights in connection with the mortgage under this Agreement. In connection with the exercise of such rights, the Mortgagee may (i) require the Mortgagor to assemble the Collateral, (ii) enter onto the Mortgagor's premises and remove such Collateral, (iii) move and store such Collateral using the Mortgagor's equipment, and (iv) see and inspect the Mortgagor's books and records regarding such Collateral.

## 11. *Assignment.*

a) *No Assignment by Mortgagor.* Except with the prior written consent of the Mortgagee, the Mortgagor shall not assign its rights and obligations under this Security Agreement (including without limitation any assignment, gift, mortgage, pledge, lien or trust).

b) *Assignment by Mortgagee.* The Mortgagor hereby agrees that, without limiting the generality of Section 2(b)(iii), the Mortgagee may, at any time and without further consent from the Mortgagor, assign all or any of its rights and interests under this Security Agreement to any one or more natural persons, legal persons, agencies, organizations or nonlegal person entities. In such event, the assignee or re-assignee of the Mortgagee shall enjoy all rights and undertake all obligations of the Mortgagee under this Security Agreement. In the event that the Mortgagee so assigns its rights and obligations under this Security Agreement, the Mortgagor, at the request of Mortgagee, shall execute all necessary agreements and/or documents to effect such assignment.

c) *Registration of Change of Mortgagee.* Should an assignment result in a change of the Mortgagee, the Mortgagor shall (or at the request of the Mortgagee, shall entrust the Mortgagee or a third party designated by the Mortgagee to) complete the formalities of registration for such change within three (3) working days of receipt of notification of such change at the Registration Authorities and bear all expenses in connection therewith.

d) *Creditor's Rights.* Any assignment of the Security under this Security Agreement shall be concurrent with an assignment of the creditor's rights enjoyed by the Mortgagee under the Distribution

Agreement. The security rights under this Security Agreement shall not be assigned to become security for any other creditor's rights.

e) *Binding on Successors.* Unless otherwise agreed, this Security Agreement shall be equally effective on the Mortgagor, the Mortgagee and each and every one of their successors and assignees.

#### 12. *Termination.*

a) This valid duration of this Security Agreement shall end and this Security Agreement shall terminate six (6) months after all amounts in connection with the Obligations have been fully repaid and the Mortgagor has no outstanding Obligations under the Distribution Agreement. Within thirty (30) days after the termination of this Security Agreement, the Mortgagor shall arrange for cancellation of mortgage registration under this Security Agreement pursuant to the applicable laws and regulations. All fees and disbursements incurred by the Mortgagee in connection with the termination of this Security Agreement shall be borne or reimbursed by the Mortgagor.

b) The termination of this Security Agreement shall not affect the exercise of any rights under this Security Agreement by the Mortgagee or any designated successor of the Mortgagee.

#### 13. *Fees and Taxes.*

a) All fees, taxes and actual expenses, including without limitation, attorney's fee, accountant's fee, valuation fee, production costs, advanced tax payments, stamp duties and any other fees and taxes related to this Security Agreement shall be borne by the Mortgagor. If the Mortgagee is required by Law to pay any taxes and fees on any income under this Security Agreement, the Mortgagor shall pay such taxes and fees on behalf of the Mortgagee or fully reimburse the Mortgagee for sums already paid.

b) If, as a result of the Mortgagor failing to pay any taxes and fees when due, as stipulated in this Security Agreement, or for any other reason, the Mortgagee is required to pay any such taxes or fees in connection with this Security Agreement, or is subject to any claims from any third party, the Mortgagor shall bear all expenses and fees resulting therefrom, including without limitation all taxes, penalties, processing fees, administrative fees, litigation costs, attorneys' fees and any insurance premiums related to the handling of the Collateral. In addition, the Mortgagor shall pay interest on such expenses and fees to the Mortgagee, at a reasonable rate determined at the sole discretion of the Mortgagee, calculated from the date the Mortgagee actually paid such expenses and fees to the date the Mortgagee actually receives reimbursement for such payments, along with payment of all interest accrued thereon.

c) The Mortgagor shall be responsible for paying all taxes and fees levied by relevant government departments on the Collateral. If the Mortgagor fails to pay such taxes and fees when due, thus causing the Mortgagee to pay such taxes and fees in order to protect its interests under this Security Agreement, the Mortgagee shall be entitled to seek reimbursement for such payments with interest from the Mortgagor in accordance with Section 13(b).

#### 14. *Settlement of Disputes.*

a) The execution, interpretation, enforcement and settlement of disputes in connection with this Security Agreement shall be governed by the law of [\_\_\_\_\_].

b) In the event of a dispute, both parties to this Security Agreement shall attempt to resolve such dispute through friendly consultation. If the dispute cannot be resolved through such consultation, the Mortgagee shall have the right to choose mediation, arbitration, litigation or other settlement methods permitted by the law of [\_\_\_\_\_]. However, the option to choose arbitration for settling a dispute under this Security Agreement is subject to the Mortgagee and the Mortgagor reaching a separate agreement for arbitration. Prior to the resolution of any dispute, the Mortgagor shall unconditionally continue to perform its obligations under other provisions of this Security Agreement.

c) If a legal proceeding is taken to settle the disputes, the Mortgagee shall have the right to choose a forum at the defendant's place of abode, the place of performance of this Security Agreement, the place of execution of this Security Agreement, the plaintiff's place of abode, the location of the subject of dispute, or any other court with jurisdiction. If the Mortgagee brings the case to any of the above-mentioned courts, the Mortgagor shall accept and not object to the choice of such court on jurisdictional grounds.

15. *Notice.* All notices (including without limitation Notice of Default) by either party to this Security Agreement for the exercise of rights and performance of obligations under this Security Agreement shall be made in writing, via registered airmail, express delivery (or courier), telegram, telex and fax. Any notice by registered airmail shall be deemed received on the fifth day after posting. Any notice by express delivery (or courier) shall be deemed received on the date of the signed acknowledgment of receipt. Any notice by telegram, telex, or fax shall be deemed received on the date sent (proof of transmission shall be required as evidence). Any notice by telegram, telex or fax shall be confirmed immediately in letter form by registered airmail or express delivery (or courier). If the date of receipt is not a business day or delivery takes place after business hours, the immediately following business day shall be deemed the date of receipt. The delivery addresses, telex and fax numbers shall be the following (or such other addresses, telex and fax numbers that may be provided to the other party in writing from time to time):

Secured Party: \_\_\_\_\_

Address: \_\_\_\_\_

Legal Representative: \_\_\_\_\_

Position: \_\_\_\_\_

Telephone: \_\_\_\_\_

Telefacsimile: \_\_\_\_\_

Debtor: \_\_\_\_\_

Address: \_\_\_\_\_

Legal Representative: \_\_\_\_\_

Position: \_\_\_\_\_

Telephone: \_\_\_\_\_

Telefacsimile: \_\_\_\_\_

*16. Effectiveness of this Security Agreement.*

a) This Security Agreement shall take effect upon registration with the Registration Authorities after its execution by the Mortgagee and the Mortgagor.

b) Any amendment, supplement or alteration to this Security Agreement shall be in writing and shall only take effect after execution by authorized representatives of both parties and filing with the Registration Authorities.

*17. Miscellaneous.*

a) *Headings.* The headings for the sections of this Security Agreement are for the convenience of reference and cross reference and shall not affect the framework or interpretation of this Security Agreement.

b) *Entire Agreement.* This Security Agreement (including the attachments) constitutes the complete agreement by both parties over the subject of this Security Agreement and supersedes all previous agreements, project proposals, feasibility studies, understandings and negotiations (whether oral or written, or between the parties or by either party, or for submission to any relevant government department) related to the subject. Neither party has made or relied upon any representations, descriptions, expositions, undertakings, understandings, conditions, warranties that are not contained in this Security Agreement.

c) *Severability.* If any of the provisions in this Security Agreement is deemed invalid or unenforceable by any court or arbitration tribunal, the other articles of this Security Agreement shall remain valid and enforceable. In such event, the parties to this Security Agreement shall formulate new provisions to replace the invalid or unenforceable provisions in accordance with the spirit of this Security Agreement.

d) *Governing Language.* This Security Agreement shall be written in both Chinese and English and both versions shall have equal legal effect.

e) *Number of Originals.* This Security Agreement shall be signed in \_\_\_\_\_ originals and each of the Mortgagor, the Mortgagee and the mortgage registration authorities shall hold one original.

f) *Date and Place of Execution.* This Security Agreement is made and signed by authorized representatives of the parties on \_\_\_\_\_, 20\_\_ in \_\_\_\_\_.

SIGNED BY AND BETWEEN

[The Mortgagor]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

[The Mortgagee]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

## CONTRACT FOR THE EMPLOYMENT OF CHINESE EMPLOYEES

\_\_\_\_\_ (“Party A”) and \_\_\_\_\_ (“Party B”) have concluded this Contract with respect to the employment of Chinese Employees, with terms and conditions as follows:

1. *Obligations of Party B.* Party B shall have the following obligations:

a) *Recommendation of Employees.* Party B shall recommend Chinese Employees for employment by Party A (the “Employees”) according to the requirements of Party A. The exact number of Employees and the Service Fees to be paid to each (the “Service Fees”) are set forth in the Appendix (1) of this Contract.

b) *No Violation of Laws.* Party B shall be responsible for ensuring that all Employees abide by the laws, regulations, and decrees of the People’s Republic of China and they observe the office rules and regulations of Party A and keep Party A’s business confidential.

c) *Services to Be Provided.* Party B shall provide supplementary services to the Employee and use the Service Fees to be paid by Party A to Party B as payment of wages to Employees and expenses for personnel management, social insurance and other services to the Employees. These other services will include services relating to (1) legal proceedings, (2) preservation of organizational affiliations, (3) administrative duties (including maintaining personnel files), (4) evaluations of Employees and assignment of professional titles according to relevant regulations, (5) negotiation of contracts with former employers whose Employee has been appointed by Party A to fill a vacancy, (5) formalities pertaining to passport applications and exit permits for the Employees when Party A so requires for business purposes, and (6) obtaining information and consulting services.

d) *Insurance.* Party B shall pay a premium of no less than \_\_\_\_\_ RMB personal accident insurance plus no less than \_\_\_\_\_ RMB additional medical insurance for Employees to the People’s Insurance Company of China or China Social Insurance Mutual-Aid Society. In case an Employee who has been insured is injured, disabled or killed while on duty, Party B must pay compensation according to the relevant regulations as set forth by the People’s Insurance Company of China; at the same time, Party A shall pay the full Service Fee to the Employee for the entire period of medical treatment. Party B shall buy from the China Social Insurance Mutual-Aid Society or the People’s Insurance Company

of China medical treatment and hospitalization insurance policies of no more than \_\_\_\_\_ RMB for each Employee. (Details are set forth in Appendix (2) of this Contract.)

e) *Diligent Work Efforts*. Party B shall encourage Employees to work diligently for Party A and award those who have demonstrated outstanding performance and who have worked with Party A for a full five years.

f) *Disciplinary Procedures*. Party B shall be responsible for the discipline of those Employees who do not perform their duties satisfactorily for Party A.

g) *Personal Support*. Party B shall assist Employees with social and personal difficulties.

h) *Opportunities and Subsidies for Terminated Employees*. For any Employee whose employment has been terminated, through no fault of his or her own, and who is still qualified for recommendation pursuant to Party B's policy, Party B shall offer new employment opportunities and certain unemployment subsidies for a period of time.

i) *Cooperation with Party A*. Party B shall take the initiative to listen to the opinions and proposals of Party A, in order to achieve high quality and efficient services.

2. *Withdrawal of Employee by Party A*. Under \_\_\_\_\_ circumstances, if the two parties fail to reach an agreement, Party B shall retain the right to withdraw an Employee from his or her employment with Party A with a thirty-day advance notice to Party A and the Employee. Party B's right to withdraw an Employee shall apply only to those Employees that were actually recommended and/or recruited by Party B. The compensation to Party A due to the withdrawal shall be calculated as set forth in Section 3(c) of this Contract. If the service of the Employee is terminated because he or she violates the laws, regulations or decrees of the People's Republic of China, neither Party A nor Party B shall pay or receive compensation. If the above-mentioned violations cause losses to Party A, Party A may seek recovery through legal proceedings, and Party B has the duty to assist the judicial department.

3. *Obligations of Party A*. Party A shall have the following obligations:

a) *Respect Chinese Customs*. Party A shall respect Chinese morals, customs and lifestyles and provide Employees with suitable working conditions and labor protection for carrying out their tasks.

b) *Limitation of Termination; Pregnant and Ill Employees*. Party A shall not terminate the employment of female Employees who are pregnant or on maternity leave for a period not to exceed three (3) months, or of Employees who are injured on duty or who are ill, during the period of medical treatment in a hospital not to exceed thirty (30) days.

c) *Service [and Management] Fees*. Party A shall pay the Employee's monthly Service Fee [and the Employment Management Fee] as set forth in Appendix (3).

d) *Limitation on Hours; Missed Meal Allowance*. Employees shall work for no more than eight hours a day and no more than 40 hours a week. If the Employees are asked to work extra hours, or to work on days off or legal holidays, their salaries for such will be calculated in accordance with Sections 41 and 44 of "The Labor Law of The People's Republic of China." Whenever a customary meal is missed because of work, Party A shall pay the Employees a missed meal allowance. If overtime work extends after 9:30

p.m., Party A shall pay Employees a night meal allowance. The amount of a missed meal allowance or night meal allowance shall be decided by Party A.

e) *Lunch Subsidy*. Party A shall pay Employees a certain amount of lunch subsidy, which shall be decided by Party A.

f) *Vacation*. Party A shall allow their Employees an annual vacation of fifteen (15) consecutive days (or fifteen (15) accumulated working days) with full pay. For those who have been employed by Party A for five years or more, Party A shall add more vacation days according to Party A's actual business conditions. Employees who have been employed by Party A less than one year are entitled to one day of vacation for each month of service. Party A shall pay certain subsidies for Employees whose vacation is terminated by Party A because of work. The subsidy shall be the same as the salary that would be paid to Employees who have been asked to work by Party A on holidays.

g) *Extra Month's Service Fee*. Party A shall pay, at the end of each calendar year, an extra month's Service Fee to any Employee who has been engaged for half a year or more. For those who have been engaged for less than half a year, the annual extra pay should be 1/12 of his or her monthly Service Fee times the number of months he or she has worked for Party A.

h) *Limitation on Monthly Service Fee*. Party A shall continue to pay the monthly Service Fee for Employees whose accumulated sick leave does not exceed thirty days (30) and/or maternity leave does not exceed ninety days (90) in one calendar year.

i) *Business Expenses within China*. Party A shall pay, besides board, lodging and travel expenses, a sum of not less than \_\_\_\_\_ RMB as pocket money per person, per day, to Employees who are on business trips within China but outside Beijing.

j) *Business Expenses outside of China*. Party A shall pay, besides board, lodging and travel expenses, a sum of not less than \_\_\_\_\_ US dollars (US \$\_\_\_\_\_) subsidy per person, per day, to Employees who go on trips outside China, and shall assume responsibility for the Employees' security while they are outside China.

k) *Automobile Insurance*. Party A shall insure its vehicles, driven by its Chinese Employees, against damage to the vehicles and for liability to its passengers and third parties. If Party A has not covered the above-mentioned insurance, in the event of traffic accidents which fall within the scope of employment for which the Employee is responsible, Party A should bear responsibility for the damages arising therefrom.

### 3. *Rights of Party A*. Party A shall enjoy the following rights:

a) *Probation Period*. Party A may impose a maximum period of three months' probation on the Employees. During the period of probation, Party A has the right to terminate the probation of the Employee if it finds that the candidate is not suitable for the job. On completion of the probation period, the probationer will be accepted as a regular Employee; the period of his or her employment shall be calculated from the first day of the probation period.

b) *Choosing Employees*. Party A may choose its own Employees with the approval of Party B, who will handle the formalities related to the lawful employment. The probation period and relevant

severance pay for the Employee hired under this provision are the same as for Employees recommended by Party B.

c) *Termination of Employee; Severance.* Party A shall have the right to dismiss an Employee upon consultation with Party B upon a thirty-days' notice in writing to Party B. The notice shall state the cause of the dismissal.

For an Employee who has been employed by Party A for more than half a year, but less than one and a half years, the severance pay shall be one month's Service Fee.

For an Employee who has been employed by Party A for more than one and a half years, but less than two and a half years, the severance pay shall be two months' Service Fee.

For each additional year of employment thereafter, an additional one month's Service Fee shall be paid. The maximum severance pay, however, shall not exceed six months' Service Fee. When an Employee is dismissed due to serious violations of Chinese laws and regulations or Party A's regulations (which regulations shall be made available to Party B), Party A may be relieved of payment of severance fees, as per an agreement with Party B after consultation.

d) *Resignation of Employee.* If the Employee intends to resign, he or she will have to submit the resignation to Party A thirty days in advance. If any other agreements are in existence, both parties shall abide by such agreements. Upon receiving the resignation notice from the Employee, Party A should notify Party B in written form ten days in advance of the resignation, otherwise the Service Fee will continue to be charged until the date on which Party B receives the notification from Party A.

e) *Separate Agreement.* Party A may enter into separate agreements with the Employees. Such agreements may not violate the laws, regulations and rules of the People's Republic of China and the provisions of this Contract.

## *5. Settlement of Payment.*

a) The Service Fee mentioned in this Contract shall be fixed as set forth in Appendix (1) of this Contract and shall be paid as set forth in Appendix (3) of this Contract.

b) An Employee's Service Fee shall be decided through consultations between Party A and Party B in the form set forth in Appendix (3). On completion of each service year, Party A shall increase the Service Fee for its Employees. The amount of increase shall be decided through consultations between the two parties.

c) Party A shall pay the Employees' monthly Service Fee at the end of each month. If the severance pay and/or annual Extra Month's Service Fee is applicable, Party A will pay them to Party B at the first of that month. If the payment is not made until the period of the 15th to 20th, 21st to 30th, 1st of the next month and thereafter into the next month, a surcharge of 1%, 3%, and 5% for arrearage shall be levied respectively.

d) All accounts made by Party A to Party B shall be calculated in RMB.



6. *Dispute Resolution.* Any dispute arising between Party A and Party B shall be settled through consultations. Should such consultations fail, the case shall be submitted to the China International Economic & Trade Arbitration Commission (CIETAC) in Beijing for arbitration with the expenses to be borne by the losing party. This contract shall be interpreted under Chinese law

7. *Miscellaneous.*

a) *Appendix.* For matters not covered in this Contract, the two parties shall negotiate and work out an appendix to be included into this Contract. The appendix shall be equally binding.

b) *Modification.* If this contract must be amended or modified during the course of its performance as a result of new laws, regulations and rules enacted by the Chinese government, Party A and Party B shall negotiate to amend or modify this contract based on the new laws, regulations and rules.

c) *Term.* This Contract shall be valid for a period of one year from \_\_\_\_\_, and its validity shall be automatically extended for another one year if no objection is raised by either party one month prior to its expiration.

d) *Governing Language.* This contract has been prepared in both Chinese and English in duplicate. Each party holds a copy and it is agreed by both parties that the Chinese version and the English version shall be equally binding.

IN WITNESS WHEREOF, this Contract has been executed by each of the parties effective as of the day and year written below.

SIGNATURES:

For Party A:      For Party B:

By: \_\_\_\_\_ By: \_\_\_\_\_

Name: \_\_\_\_\_ Name: \_\_\_\_\_

Title: \_\_\_\_\_ Title: \_\_\_\_\_

Date:

Date:

**APPENDIX (1) TO THE CONTRACT FOR THE  
EMPLOYMENT OF CHINESE EMPLOYEES REGARDING  
EMPLOYMENT SERVICE FEES**

\_\_\_\_\_ (“Party A”) and \_\_\_\_\_ (“Party B”) have concluded “The Contract for the Employment of Chinese Employees” (hereinafter referred to as the Contract). The collection and payment of the employment Service Fees as agreed to in the Contract shall be made in the following manner:

1. Party B shall issue a collection certificate pursuant to the Contract through its working bank by the 1st of each month. Party A shall make the payment accordingly.

2. The payments for the employment of the Chinese Employees are as follows:

Number	Name	Title	Employment Service Fee	Employment Management Fee	Remarks

The contract period for the above named Employee(s) is one year. From \_\_\_\_\_, Party A agrees to pay the agreed amount to Party B’s nominated account.

Name of Party B: \_\_\_\_\_

RMB Bank:

Bank Name

Branch

Account No

Foreign Exchange Bank:

Bank Name

Account No

SIGNATURES:

For Party A:

For Party B:

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Date:

Date:

## **APPENDIX (2) TO THE CONTRACT FOR THE EMPLOYMENT OF CHINESE EMPLOYEES REGARDING MEDICAL EXPENSES**

\_\_\_\_\_ (“Party A”) and \_\_\_\_\_ (“Party B”) have concluded this agreement with respect to Party B bearing the medical expenses of Chinese Employees, as Appendix (3) of the CONTRACT FOR THE EMPLOYMENT OF CHINESE EMPLOYEES; the terms and conditions are as follows:

1. *Payment of Medical Expenses.* Party B shall pay a premium for the medical treatment and hospitalization insurance of the Employees to China Social Insurance Mutual-Aid Society or the People’s Insurance Company of China, as follows:

a) For Employees between the age of [18-60] years, if they are proven to be healthy through examination by the appointed hospital, Party B will pay [80%–95%] of medical expenses and hospitalization for the Employee, not to exceed [20,000] RMB per year, provided that they maintain such healthy status during a 30-day observation period immediately following the examination. (Those who renew their employment agreement one month prior to its expiration will not be subject to the 30 day observation period.) In addition, Party B shall implement a system for the medical and hospitalization expenses, that is, Party B shall provide full payment of the qualified amount of submitted medical and/or hospitalization expenses totaling less than [300] RMB per year, at the end of each calendar year.

Party B shall pay for [80%–95%] of the medical and/or hospitalization expenses according to the following system:

[300-5,000 RMB	pay 80%
5,001-10,000 RMB	pay 90%
10,001-20,000 RMB	pay 95%]

b) Party B shall reimburse for hospital expenses according to the above system, when Employees

seek medical advice at the appointed hospital; Party B shall reimburse the following:

(i) expenses for medicine (the public health service has stipulated certain medicines which are at one's own expense and which will not be included here).

(ii) expenses for treatment: expenses for oxygen therapy, blood transfusions, surgery, and/or any related handling charges.

(iii) expenses for a hospital bed: maximum 10 RMB per day, maximum 60 days per hospital stay.

(iv) expenses for examination: clinic exams are limited to [300] RMB (each time), hospitalization is limited to [1000] RMB (each time).

c) Party B will not have a duty to pay for the following expenses by Employees:

(i) Routine health examinations, convalescent care, recovery treatment and parturition.

(ii) Purchase of transplant organs; installation of artificial limbs, ocular prostheses, dental prostheses; purchase of wheelchairs and makers.

(iii) Cosmetology and orthopedic expenses.

(iv) Consultations with doctors at any non-appointed hospitals.

(v) Accidents and accidents for which third parties are liable.

(vi) Expenses that occur as a result of war and/or military movement.

(vii) Expenses as a result of pre-existing physiological deficiencies and/or congenital diseases.

(viii) Expenses which are related to an Employee's medical case history which was intentionally withheld or not disclosed by the Employee.

d) If an Employee has any of the following diseases before the Contract is signed, Party B shall not be responsible for any related medical and hospitalization expenses:

[Malignant tumor, aplastic anemia, infectious diseases, psychosis, epilepsy, cerebral blood vessel disease, myocardial infarction, high blood pressure (higher than phase 2), heart disease (heart functioning at a level higher than phase 2), bronchitis, chronic blocked pulmonary emphysema, tuberculosis, liver sclerosis, chronic nephritis, kidney tuberculosis, complex kidney disease, diabetes, lupus erythematosus, congenital disease.]

e) Employees shall submit medical and hospitalization expenses to Party B on a quarterly basis starting from the date this Appendix is signed, and shall submit all expenses for a given year within fifteen

days after the end of that year. Otherwise, Party B shall treat any unsubmitted expenses as an automatic waiver by the Employee of Party B's responsibility for such expenses. An expense claim shall be accompanied by the following documents:

(i) original evidence of medical treatment charges and hospitalization expenses (including receipts and prescriptions), and diagnoses and medical treatment records.

(ii) receipts which Party B thinks are necessary.

f) When an Employee's accumulated medical treatment and hospitalization expenses exceed [1000] RMB and [5000] RMB, he or she should notify Party B within 10 days.

g) If an Employee experiences serious illness during the Contract's period of validity and he or she does not recover prior to its expiration, Party B will renew the Contract.

h) Party B's appointed hospitals are:

(i) \_\_\_\_\_

(ii) \_\_\_\_\_

i) Under special circumstances, where Party A and Party B reach an express agreement by which Party B shall withdraw an Employee, Party B will continue to be responsible for the Employee's medical expenses as set forth in this Appendix.

Where Party B withdraws an Employee during the period of this contract, Party B shall reimburse [70%–90%] of the Employee's outstanding medical expenses, not to exceed [20,000] RMB. The payment standards are as follows:

[300–5000 RMB                      pay for 70%

5,001–10,000 RMB              pay for 80%

10,000–20,000 RMB              pay for 90%]

If an Employee quits work because of violations of the laws, regulations and/or decrees of the People's Republic of China, Party B will not pay for any of his or her medical expenses from the date the Employee quits work.

j) Where an Employee obtains the payment of medical or hospitalization expenses through means of deception or intentional concealment of information, once discovered, Party B shall impose a penalty on the Employee of [5] times the medical and/or hospitalization expenses, in addition to any recovery of paid expenses. Party B reserves the right to recover all economic losses, from Employees or their beneficiaries, as a result of investigation and verification of such fraud or deception. If necessary, Party B will report any serious violations or acts of fraud or deception to the court for enforcement of the law.

k) \_\_\_\_\_ shall be responsible for the above medical expenses. \_\_\_\_\_ shall receive from Party B accident insurance for the sum of not less than RMB [40,000], additional medical insurance in the sum of RMB [10,000], and household property insurance in the sum of not less than RMB [20,000].

2. *Term.* This appendix shall be valid for a period of one year from \_\_\_\_\_ and its validity shall be automatically extended for another one year if no objection is raised by either Party one month prior to its expiration.

**SIGNATURES:**

For Party A:

For Party B:

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Date:

Date:

## **APPENDIX (3) TO THE CONTRACT FOR THE EMPLOYMENT OF CHINESE EMPLOYEES REGARDING THE EMPLOYMENT SERVICE FEE PAID**

1. *Payments in Connection With Employee A.* After amicable discussions between Party A and Party B, both parties reach the following agreement for the salary of Employee A:

a) *Employment Fees.* [Party A shall pay a Employment Management Fee to Party B in the monthly sum of RMB \_\_\_\_\_. The entire monthly Employment Management Fee is to be paid by Party A to Party B before the end of each month. Party B should issue a receipt against such payment. Party A shall pay the balance of Employee's compensation to Employee A (RMB \_\_\_\_\_.)] or [The salary of the Employee should be calculated as follows, and paid directly from Party B to the Employee: Employee's salary = monthly employment Service Fee multiplied by [x]%. The entire monthly Service Fee is to be paid by Party A to Party B before the end of each month. Party B should issue a receipt against such payment. Party B shall pay the Employee's salary.]

b) *Rights and Obligations.* Both parties will still have all rights and obligations stipulated in THE CONTRACT FOR THE EMPLOYMENT OF CHINESE EMPLOYEES.

c) *Other Charges.* The following charges are to be paid by Party A according to item (1) above:

(i) [the increase in the monthly Employment Management for each additional year] or [the increase in the monthly employment Service Fee for each additional year and the extra month's Service Fee to be paid at the end of each year.]

(ii) severance fee, if applicable.

d) Lunch subsidy, missed meal allowance, night meal allowance, traveling compensation and overtime payments are to be paid to the Employee directly by Party A.

e) Party A shall encourage the Employee to pay tax for all the income the Employee receives directly from Party A. However, payment of any and all individual income tax applicable to the Employee shall be his sole responsibility.

2. *Term.* This Appendix shall be valid for a period of one year from \_\_\_\_\_, and its validity shall be automatically extended for another one year if no objection is raised by either Party one month prior to its expiration.

**SIGNATURES:**

For Party A:

Party B:

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Date:

Date:

## **TECHNOLOGY LICENSE AGREEMENT**

THIS AGREEMENT is made by and between \_\_\_\_\_ ("Licensor"),  
\_\_\_\_\_ (the "Company"), \_\_\_\_\_ ("Licensee") and \_\_\_\_\_  
(the "Sales Company").

### **WITNESSETH**

WHEREAS, Licensor owns certain technology know-how, non-patented technology, trade secrets, designs, technical documentation, applications literature, sales information, customer lists and sales leads, and other technology with respect to the design, fabrication, finishing, and sale of \_\_\_\_\_ products (hereinafter referred to as "Licensed Technology");

WHEREAS, Licensor is prepared to grant to Licensee an exclusive license to use, manufacture, market, and exploit any and all rights which Licensor owns in the Licensed Technology;

WHEREAS, Licensee desires to license and obtain such rights from Licensor;

NOW, THEREFORE, in consideration of the mutual covenants and promises set forth herein, the parties agree as follows:

1. *License.* Licensor hereby grants an exclusive fifteen (15) year license to Licensee to use, manufacture, market, and exploit the Licensed Technology subject to the Limitations on Territory and Minimum Quota provisions of this Agreement.

2. *Limitations on Territory.*

a) This exclusive license is limited to the following territories, countries, or regions:  
\_\_\_\_\_ (hereinafter referred to as the "Authorized Territory").

b) Licensee agrees and acknowledges that it shall not manufacture, market, or sell, either directly or indirectly, any product using the Licensed Technology to any other territory, country, or region except for the Authorized Territory expressly described in subsection 2(a).

c) Licensee acknowledges and agrees that Licensor, or any other party designated by Licensor, has the option to become the exclusive distributor of Licensee's products which use the Licensed Technology for the territory of [the United States of America, Canada, and Latin America]. Said option may be exercised at any time during the term of this Agreement.

3. *Exclusivity.* This Agreement is an "exclusive license" which means that Licensor and the Company shall not grant the rights granted herein to any other individual or entity with respect to the Authorized Territory, and that Licensor and the Company shall be excluded from using, marketing, selling, or exploiting such rights in the Authorized Territory. This Agreement applies to Licensor and the Company, and their employees, agents, principals, related organizations, and/or subsidiaries.

4. *Interim Sales Period/the Company Production.*

a) Notwithstanding the restrictions set forth in 3(a) and 3(b) above, the parties agree and acknowledge that customer inquiries and sales within the Authorized Territory may be made directly to the Company prior to the establishment of satisfactory production by Licensee (hereinafter referred to as "Interim Sales Period").

b) During the Interim Sales Period, the Company shall not be under any obligation to fill any orders for customers located within the Authorized Territory except if in the Company's sole discretion it determines that such orders can be met with the Company's current production capacity and in an economically feasible manner. All customer inquiries during the Interim Sales Period shall be referred directly to the Company. Licensee, in its discretion, has the right to declare an end to the Interim Sales Period and to advise the parties that it is prepared to accept orders for production from the Sales Company.

c) Licensee and the Sales Company shall not, during the Interim Sales Period or at any time during the term of this Agreement, provide any quote, bid, or sales confirmation on behalf of, or in the name of, the Company or Licensor.



d) Licensee and the Sales Company shall not be entitled to any commission, royalty, or other compensation for sales made by the Company during the Interim Sales Period.

#### *5. Licensed Technology.*

a) The Licensed Technology constitutes the latest technology and proprietary information in the \_\_\_\_\_, and employs techniques and methods which are innovative and unique to the industry.

b) The Licensed Technology shall include the following technology:

(i) Design and production technology including \_\_\_\_\_.

(ii) Catalogs and sales materials. A true and correct copy of Licensor's product catalogs and sales materials is attached to this Agreement as Addendum 1.

(iii) List of customers and sales leads in the Authorized Territory, and pricing information specific as to the type of product, customer, and location.

c) If Licensor develops any future improvements to the Licensed Technology, Licensor shall give Licensee the opportunity to purchase any and all future improvements and technology advancements as it may relate to the Licensed Technology during the term of this Agreement that have been developed by Licensor or the Company. The purchase price of said improvements and advancements shall be based upon the development costs incurred by Licensor or the Company.

d) Notwithstanding subsection 5(c), in the event that the sales of the Sales Company exceed the quota amounts set forth in Section 13, Licensor shall provide Licensee with the know-how and information to implement the improvements and advancements to the License Technology free of charge. Licensor, in its discretion, has the right to stop providing Licensee with the improvements and advancements if the Sales Company fails to continue to meet its quota obligations under Section 13. Licensee acknowledges that the improvements and advancements provided free of charge under this subsection only include techniques, information, methods, and know-how. If an improvement or advancement requires the purchase of additional Processing Equipment, Licensee shall be responsible for purchasing said equipment or machinery. Licensor will assist Licensee with the purchase of any additional Processing Equipment.

e) The Licensed Technology excludes all proprietary information and technology as it relates to aluminum finishes. Licensee acknowledges and agrees that it shall not, at any time, manufacture, market, or sell, directly or indirectly, any \_\_\_\_\_. A violation of this covenant is grounds for immediate termination of this Agreement and return of all Licensed Technology.

#### *6. Procurement of Processing Equipment.*

a) Licensor shall assist Licensee in the procurement of processing equipment and machinery to enable Licensee to exploit the Licensed Technology (hereinafter referred to as "Processing Equipment"). Specifically, Licensor shall facilitate the selection, purchase, shipment and delivery, installation, and testing of the Processing Equipment on behalf of Licensee.

b) Licensor has advised Licensee that the Processing Equipment may be purchased for a budgeted amount in the approximate sum of US \$\_\_\_\_\_. Licensee acknowledges and agrees that the US \$\_\_\_\_\_ budget for the purchase of the Processing Equipment is wholly separate from, and not included in, the License Fee or Royalties as described in Sections 10 and 11 of this Agreement. Attached hereto as Addendum 2 is a Project Budget and Payment Schedule which outlines the License Fee and funds required to purchase the Processing Equipment. Licensor shall commence the procurement of the Processing Equipment within thirty (30) days of receipt of the initial License Fee as required under Section 10 of this Agreement. At the direction of Licensor, Licensee shall secure the necessary letters of credit or other financial instruments required by the original equipment manufacturer(s) of the Processing Equipment.

c) Licensee recognizes that any and all warranties or guarantees concerning the Processing Equipment shall be provided by the original manufacturer and not Licensor or the Company, or their employees, officers, agents, subsidiaries, or related organizations. All servicing and maintenance of the Processing Equipment shall be the responsibility of the original manufacturer of the Processing Equipment. Licensor and the Company shall not be responsible for service and maintenance of the Processing Equipment at any time. The original equipment manufacturer, and not Licensor or the Company, shall provide all information and documentation necessary to maintain the Processing Equipment.

d) A list of all Processing Equipment to be purchased pursuant to this Agreement shall be supplied with the Licensed Technology upon receipt of the initial License Fee.

#### *7. Training and Processing Equipment Set-Up.*

a) Licensor shall provide training at the facilities of the Company in \_\_\_\_\_, for four (4) qualified employees of Licensee. The Training Period may commence at any time upon receipt of the initial License Fee set forth in Section 10. The training for all four Licensee employees shall be held concurrently, and shall be for a period of not less than three (3) months and until the employees master the techniques and methods of the Licensed Technology but no longer than a maximum period of one (1) year. The cost of training Licensee's employees, including the cost of materials, books, manuals, and instructor time, is included in the License Fee.

b) Licensee shall be responsible for all personal expenses of its employees to attend the training at the Company including, but not limited to, travel, lodging, food, transportation, security, wages, medical care and other benefits, and any other expense incurred by Licensee's employees during the training period. Licensee shall also be responsible for obtaining the necessary immigration approval for its employees to attend the training at the Company, and shall comply with all U.S. labor laws and other regulations concerning the presence of the employees in the United States. Licensor shall assist Licensee in obtaining the necessary immigration approval for the employees and shall assist Licensee with respect to obtaining the necessary government approval under U.S. labor regulations.

c) All Licensee employees that participate in the training at the Company shall be required to sign a confidentiality agreement in order to protect all parties to this Agreement. Licensee acknowledges and agrees that it is in its best interest to allow only trusted and loyal employees to attend the training at the Company.

d) Licensor will provide additional training at the time the Processing Equipment is set-up at Licensee's factory in \_\_\_\_\_. The training to be provided at Licensee's factory shall be limited to a thirty (30) day period of time during the initial installation of the Processing Equipment.

#### *8. Technical Assistance.*

a) Licensor shall provide Licensee with technical assistance and support during the initial installation of the Processing Equipment and for a period of six (6) months after production begins. The technical assistance provided by Licensor under this Agreement shall include assistance, advice, counseling, and information with respect to the Licensed Technology (hereinafter "Licensor Technical Assistance"). The Licensor Technical Assistance provided under this Section, in Licensor's option, may be limited to telephonic communications, facsimile communications, or electronic mail communications. If Licensee desires that Licensor provide Licensor Technical Assistance after the six (6) month period described herein, Licensee shall reimburse Licensor for any and all expenses and costs including all labor costs, materials, and travel expenses.

b) The original equipment manufacturer that supplies the Processing Equipment shall provide Licensee with the technical assistance and support concerning the operation and maintenance of the Processing Equipment (hereinafter "OEM Technical Assistance"). Licensor, in its efforts to assist Licensee in procuring the Processing Equipment as required under Section 6 of this Agreement, shall require that the original equipment manufacturer contractually agree to fully provide Licensee with accessible and reliable OEM Technical Assistance. Based upon Licensor's prior experience with the equipment suppliers, Licensor assures Licensee that the original equipment manufacturers will provide prompt and competent technical assistance and support to meet the needs of Licensee.

#### *9. Sales and Marketing.*

a) Licensor and the Company shall provide Licensee with the names, addresses, and telephone numbers of all customers, contacts, and sales leads located in the Authorized Territory.

b) Licensee shall be responsible for marketing, sales, and distribution of all products using the Licensed Technology in [the People's Republic of China, Macau, and Hong Kong.]

c) For all Authorized Territory not listed in subsection 9(b), the parties to this Agreement shall operate a sales organization to be located in \_\_\_\_\_. The sales organization shall be entitled \_\_\_\_\_ (hereinafter referred to as the Sales Company), and shall be wholly owned by Licensee. The President of Sales Company shall be \_\_\_\_\_, and the Vice President of sales of Sales Company shall be \_\_\_\_\_. The Vice President's term of employment by Sales Company shall be \_\_\_\_\_. The Vice President's duties shall include, but not be limited to, organizing and establishing a marketing network for Sales Company in the Authorized Territory and assisting Sales Company in meeting its minimum sales quota under Section 13 of this Agreement.

d) Licensee agrees that all sales in the Authorized Territory, except for the [People's Republic of China, Macau, or Hong Kong,] shall be made by and through the Sales Company. Licensee expressly agrees that it shall not make any direct sales to any party located outside of the [People's Republic of China, Macau, and Hong Kong]. If Licensee makes any sales outside of the [People's Republic of China, Macau, and Hong Kong] independently of the Sales Company, Licensee shall pay a royalty to Licensor pursuant to Section 11 as if the sale was made directly by the Sales Company.

e) The Sales Company shall be established and operating within one (1) year from the date of execution of this Agreement. After the Sales Company is established, it shall operate continuously throughout the term of this Agreement.

f) Licensee and Sales Company shall not at any time or for any reason use the trademarks, service marks, and trade names of Licensor or the Company, including the language and letters "\_\_\_\_\_."

10. *License Fee.*

a) In consideration of the exclusive license hereunder and services provided by Licensor, Licensee shall pay to Licensor a License Fee in the sum of US\$\_\_\_\_\_, payable as follows:

(i) A single payment of US\$\_\_\_\_\_ directly to Licensor at the time of executing this Agreement.

(ii) The sum of US\$\_\_\_\_\_ payable in four equal installments of US\$\_\_\_\_\_ to be paid to Licensor every six (6) months commencing six (6) months after the installation of the Processing Equipment or no later than twelve (12) months after the execution of this Agreement. All installments under this subsection shall be paid in full within three (3) years after execution of this Agreement. Attached hereto as Addendum 2 is a Project Budget and Payment Schedule which outlines a payment schedule for the License Fee.

(iii) The installment payments set forth herein shall be secured and guaranteed by an irrevocable and confirmed commercial letter of credit issued by a financial institution approved by Licensor (hereinafter referred to as "Letters of Credit"). The Letters of Credit are an integral part of this Agreement and are attached hereto, and incorporated herein, as Addendum 3.

b) Licensee shall pay a Commission to the Vice President of the Sales Company on the terms and conditions set forth in the Commission Agreement attached hereto as Addendum 4. Attached hereto as Addendum 2 is a Project Budget and Payment Schedule which outlines a payment schedule for the Commission.

c) Licensee shall be responsible and pay for any and all taxes which Licensee is required to pay under the laws of the People's Republic of China that may apply to the License Fee or Commission described in this Section including all income taxes, transaction tax, stamp tax, or other similar taxes or fees imposed by the government of the People's Republic of China.

11. *Royalties.*

a) In consideration of the exclusive license hereunder, Sales Company shall pay to Licensor the following royalties during the term of this Agreement for all sales in the Authorized Territory:

(i) \_\_\_\_\_ percent (\_\_\_\_%) for annual net sales of less than US\$\_\_\_\_\_;  
\_\_\_\_\_ (\_\_\_\_%) for all annual net sales ranging from US\$\_\_\_\_\_ to US\$\_\_\_\_\_;  
\_\_\_\_\_ percent (\_\_\_\_%) for all annual net sales over US\$\_\_\_\_\_.

(ii) The term "net sales" as used in this Agreement is defined as the monies actually received from the customer and does not include the cost of shipping, insurance, or taxes.

b) The royalty payments herein shall be paid within thirty (30) days from the end of each calendar quarter after the establishment of the Sales Company. Such royalty payments shall be made by wire transfer remittance to the bank account designated by Licensor in U.S. dollars. The royalties shall be calculated on a quarterly basis at an average rate of \_\_\_\_\_ percent (\_\_\_\_%) of the net sales. The total royalty due under subsection 11(a)(i) shall be adjusted at the end of the fiscal year to reflect the actual annual net sales made by the Sales Company.

c) No royalty shall be due Licensor for any sales made by Licensee in [People's Republic of China, Macau, or Hong Kong,]. However, if Licensee makes any sales outside of [People's Republic of China, Macau, or Hong Kong,] independently of the Sales Company, Licensee shall pay a royalty to Licensor pursuant to subsection 11(a) as if the sale was made directly by the Sales Company.

d) Licensee shall guarantee the payment of all royalties to be paid to Licensor by the Sales Company. If for any reason the Sales Company dissolves, discontinues its operations, or is unable to conduct its business, Licensee shall guarantee the payment of all royalties to be paid Licensor by Sales Company. In the event that Sales Company ceases to do business as a result of an unforeseeable cause such as a natural disaster, Licensee shall not be responsible for the payment of royalties to Licensor; however, Licensee shall pay a royalty to Licensor pursuant to subsection 11(a) for all monies received by Licensee on items produced by Licensee and ordered by customers through the Sales Company prior to unforeseeable event.

e) On a quarterly basis, Sales Company shall furnish Licensor with complete and accurate statements, including copies of all purchase orders and invoices of the products sold by Sales Company showing the relevant calculations and amount due to Licensor as royalty payments; such statements shall be certified as accurate by a Sales Company executive officer, and provided to Licensor.

#### 12. *Audit.*

a) Licensor, or any party it may delegate, shall have the right, upon reasonable notice, to audit at its cost all records of Sales Company for the previous twelve (12) months relevant to the sales which are the subject of this Agreement, in order to ascertain the sales of Sales Company and the royalty thereon. Licensor, or any party it may delegate, shall have the right, upon reasonable notice, to obtain copies of all shipping records concerning sales made by Sales Company of products produced with the Licensed Technology.

b) Should any material deficiency of royalty payment be revealed as a result of such audit, Sales Company and/or Licensee shall immediately pay all reasonable costs of such audit and all the deficient royalty together with interest thereon at the rate of \_\_\_\_\_ percent (\_\_\_\_%) per annum computed from the next day on which the deficient royalty should have been paid. A "material deficiency" under this provision is any amount in excess of US\$\_\_\_\_\_.

#### 13. *Minimum Quota.*

a) The parties agree that in order to retain the exclusive license with respect to the Authorized Territory (except for the People's Republic of China and Hong Kong), Sales Company shall meet the following minimum quota for the sale of all products using the Licensed Technology (hereinafter referred to as "Minimum Quota") commencing from the date of establishment of Sales Company, and no later than twelve (12) months after production begins:

YEAR 1: US \$\_\_\_\_\_

YEAR 2: US \$\_\_\_\_\_

YEARS 3-15: US \$\_\_\_\_\_

b) In the event that Sales Company fails to meet the Minimum Quota, Licensor, at its option, may terminate the exclusive license as it relates to the Authorized Territory, except for [People's Republic of China, Macau, or Hong Kong].

#### *14. Term and Termination.*

a) The term of this agreement is for a period of fifteen (15) years commencing from the date of execution of this Agreement. This Agreement may be extended for an additional term with the consent of the parties based upon the same terms and conditions.

b) Either party shall have the right to terminate this Agreement, prior to the expiration of its terms, under any one of the following circumstances:

(i) bankruptcy of either party;

(ii) insolvency of either party;

(iii) assignment by either party, for the benefit of its creditors;

(iv) appointment of a receiver for either party's property, in whole or in part; or

(v) a change of ownership or control which results in a party becoming, directly or indirectly, owned or controlled by a competitor.

c) If either party commits any substantial breach of this Agreement, the non-breaching party shall give written notice of such breach, and if such breach is not remedied by the breaching party within sixty (60) days of such notice, the non-breaching party shall be entitled to terminate this Agreement forthwith.

#### *15. Confidentiality.*

a) During the term of this Agreement, Licensee and Sales Company may have access to confidential information of Licensor. Licensee and Sales Company shall protect such information in the same manner in which it would protect its own confidential information of like importance and to maintain the confidentiality of such information. Licensee and Sales Company agree that they shall not disclose or use confidential information of Licensor for its own benefit or the benefit of any other person or entity. Licensee and Sales Company further agree that they shall not, at any time, disclose the Licensed Technology to any person or entity, that is not subject to a confidentiality agreement, including any partner, customer, distributor, joint venture partner, supplier, or other similar person or entity, without the prior written consent of Licensor.

b) During the term of this Agreement, Licensor may have access to confidential information of Licensee and shall protect such information in the same manner in which it would protect its own confidential information of like importance and to maintain the confidentiality of such information. Licensor agrees that it shall not disclose or use confidential information of Licensee for its own benefit or the benefit of any other person or entity.

c) Licensee and Sales Company agree and acknowledge that only trusted and loyal employees shall have access to the Licensed Technology and that they shall require that those employees with access to enter into a confidentiality agreement prohibiting the disclosure and misuse of the Licensed Technology.

d) The parties hereto both agree that the terms and conditions of this Agreement are to remain confidential at all times.

*16. Prohibition on Disposition of Rights to or Misuse of Licensed Technology.*

a) Licensee agrees that it shall not sell, assign, sublicense, lease, or otherwise transfer the Licensed Technology to any other person or entity, including any partner, customer, distributor, joint venture partner, supplier, or other similar person or entity, at any time. Licensee further agrees that it shall not allow any person or entity, including any partner, customer, distributor, joint venture partner, supplier, or other similar person or entity, to use, test, improve, manipulate, or otherwise exploit the Licensed Technology in any manner without the written consent of Licensor.

b) Licensor shall have the right to obtain injunctive relief to prohibit Licensee from violating the terms of this provision or subsection 9(f).

*17. Indemnification.*

a) Each party (the "indemnitor") agrees to indemnify and hold harmless the other party (the "indemnitee"), its agents, employees, successors and assigns from and against any and all liabilities, losses, damages, claims, suits and expenses, including reasonable attorney's fees, of whatsoever kind and nature imposed upon, incurred by, or asserted against the indemnitee, its agents, employees, successors and assigns for bodily injuries (including death) or damage to property relating to or arising out of the indemnitor's negligent acts or omissions, provided that the maximum liability of the indemnitor under this provision shall be [\$1,000,000] per occurrence.

b) Licensor represents and warrants that the Licensed Technology shall in no way infringe any U.S. or foreign patents, copyrights or proprietary rights owned or controlled by any third party.

18. *Limitation of Liability.* Except for a breach of a party's confidentiality and nondisclosure obligations pursuant to Section 15, and except for obligations arising under a party's third party indemnification obligations pursuant to Section 17, neither party will be liable to the other for incidental, consequential or special damages even if advised of the possibility of such damages.

*19. General Provisions.*

a) Time is of the essence of this Agreement.

b) This Agreement contains all of the agreements, understandings, representations and conditions made between the parties hereto.

c) No provision of this Agreement may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors in interest.

d) This Agreement shall inure to the benefit of and be binding upon the successors, heirs and assigns of the parties.

e) In the event that a dispute arises under this Agreement, the parties hereby agree to submit the disputed issues to arbitration before the Singapore International Arbitration Center and that the rules of arbitration of the Center shall control.

f) If any party should institute any action or arbitration proceeding under this Agreement, the prevailing party in such action or arbitration shall be entitled to reasonable attorneys' fees and costs.

g) This Agreement shall be governed by the laws of the People's Republic of China, and any questions arising hereunder shall be construed or determined according to such laws.

h) It is not the intent of the parties to create under this Agreement any joint venture, partnership, business association, or other form of business entity. Except as otherwise provided herein, in no event shall either party be liable in any manner for the acts and omissions of the other party to compensate its employees, representatives, and agents. Neither party shall have the right to legally bind the other party in any manner whatsoever.

i) This Agreement has been prepared in both the English and Chinese languages and both versions are equally binding.

j) The persons executing this Agreement warrant that they have the authority to bind their respective entities. Licensee further warrants that it has full right, power and authority to enter into the Agreement.

k) The Company shall guarantee the performance of Licensor under the terms and conditions of this Agreement.

l) If this Agreement is required to be approved by the relevant government authorities, it shall not be effective until such authority is obtained.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as noted below.

Dated: \_\_\_\_\_, [LICENSOR]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Dated: \_\_\_\_\_, [THE COMPANY]

By: \_\_\_\_\_



Name: \_\_\_\_\_

Title: \_\_\_\_\_

Dated: \_\_\_\_\_, [LICENSEE]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Dated: \_\_\_\_\_, [SALES COMPANY]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

## JOINT VENTURE CONTRACT

### TO ESTABLISH

### AN EQUITY JOINT VENTURE USING CHINESE

### AND FOREIGN INVESTMENT

### AMONG

[PARTY A AND PARTY B]

(date)

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**JOINT VENTURE CONTRACT**, dated \_\_\_\_\_, is entered into in [place], People's Republic of China (the "PRC" or "China"), between \_\_\_\_\_ ("Party A") and \_\_\_\_\_ ("Party B").

*PRELIMINARY STATEMENTS*

(1) Party A is a joint stock company organized under the laws of the PRC.

(3) Party B is a corporation organized under the laws of [\_\_\_\_\_] and is a manufacturer of certain products described on *Exhibit A*.

(4) Party A and Party B jointly have conducted and completed a feasibility study for the operation of an enterprise to manufacture those products described on *Exhibit A*.

(5) After friendly consultations conducted in accordance with the principles of equality and mutual benefit, Party A and Party B have agreed to establish an equity joint venture enterprise in accordance with the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment (the "Joint Venture Law"), the implementing regulations issued thereunder, other relevant laws and regulations of China, and the provisions of this Joint Venture Contract.

NOW THEREFORE, the parties hereby agree as follows:

**CHAPTER 1.**

**GENERAL PROVISIONS**

Article 1.1. *Definitions.*

The following terms as used in this Contract shall have the meanings set forth below:

(1) "Approval Authority" shall mean \_\_\_\_\_ Municipal Foreign Economics and Trade Commission, its authorized agent or its successor authority.

(2) "Articles of Association" shall mean the Articles of Association of the Company in the form agreed to by the Parties.

(3) "Associated Company" shall mean with respect to a Person, any other Person, which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" of a Person shall mean the power, directly or indirectly, either to (i) vote 50% or more of the securities having ordinary voting power for the election of directors of such Person or (ii) direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

(4) "Board of Directors" shall mean the board of directors of the Company.

(5) "Company" shall mean the joint venture company to be established pursuant to the terms of this Contract.

(6) "Contract" means this Joint Venture Contract and the Exhibits hereto.

(7) "Effective Date" shall mean the date on which the approval document of this Contract is issued by the Approval Authority.

(8) "Establishment Date" shall mean the date on which the business license of the Company is issued by the \_\_\_\_\_ Municipal Administration for Industry and Commerce.

(9) "Feasibility Study" shall mean the completed feasibility study report dated [ ], jointly prepared by the Parties.

(10) "Going Concern Value of the Company" shall mean the value of the Company as a going concern determined based on a valuation methodology acceptable to internationally-recognized certified public accounting firms and based on the sum of (i) a multiple of projected earnings for all then projected periods and (ii) the Company's terminal value at the end of such projected periods.

(11) "Governmental Authority" shall mean any foreign or domestic national, provincial, territorial or local governmental authority, quasigovernmental authority, court, governmental organization, governmental commission, governmental board, bureau or instrumentality, regulatory, administrative or other agency, or any political or other subdivision, department or branch of any of the foregoing.

(12) "Lease" shall mean a lease executed, or to be executed, by the Company and [ ] for the occupancy by the Company of that certain premises commonly known as [ ] located [ ].

(13) "Officials" shall mean the Chairman of Party B and the Chairman of Party A.

(14) "Operating Agreements" shall have the meaning set forth in Section 13.1(3).

(15) “Party” shall mean each of Party A and Party B, which are sometimes collectively referred to as the “Parties,” and their respective successors and permitted assigns.

(16) “Percentage” with respect to Party A shall mean [x]% and with respect to Party B shall mean [y]%.

(17) “Person” shall mean and include an individual, a partnership, a joint venture, a corporation, a limited liability company, a trust, an unincorporated organization and any Governmental Authority.

(18) “Products” shall mean those products listed on Exhibit A.

(19) “Representative” shall mean with respect to a Person, any and all directors, officers, employees, representatives or agents of such Person.

(20) “RMB” or “Renminbi” shall mean the lawful currency issued by The People’s Bank of China.

(22) “Senior Officers” shall mean the General Manager, the two (2) Deputy General Managers, [the Managers of Finance, Marketing, Engineering and Quality] and such other senior officers as are designated as such from time to time by the Board of Directors.

(22) “Territory” shall mean the PRC, excluding, solely for the purposes of this Contract, Taiwan and Macau.

(23) “US\$” or “United States Dollars” shall mean the lawful currency of the United States of America.

## **CHAPTER 2.**

### **PARTIES TO THE JOINT VENTURE**

Article 2.1. *Joint Venture Parties.* The Parties to this Contract are:

a) Party A:

Legal Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Legal Representative: \_\_\_\_\_

Position: \_\_\_\_\_

Nationality: \_\_\_\_\_

Fax: \_\_\_\_\_

Telephone: \_\_\_\_\_

a) Party B:

Legal Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Legal Representative: \_\_\_\_\_

Position: \_\_\_\_\_

Nationality: \_\_\_\_\_

\_\_\_\_\_

Telephone: \_\_\_\_\_

### **CHAPTER 3.**

#### **REPRESENTATIONS**

Article 3.1. *By Party A.* Party A hereby represents as of the date hereof as follows:

(1) *Duly Organized.* Party A is a joint stock company duly organized and validly existing with the status of a legal person under the laws of China.

(2) *Duly Authorized.* The execution and performance by Party A of this Contract (i) are within its corporate power and business scope; (ii) have been duly authorized by all necessary corporate action; (iii) do not contravene its Articles of Association; and (iv) do not contravene any law or contractual restriction binding on or affecting it.

(3) *No Governmental Consents Required.* No authorization, consent or approval or other action by, and no notice to or filing with, any Governmental Authority is required for the due execution, delivery and performance by Party A of this Contract, except for the approval of this Contract by the Approval Authority.

(4) *Enforceability.* Subject to the approval of this Contract by the Approval Authority, this Contract is the legal, valid and binding obligation of Party A, enforceable against Party A in accordance with its terms.

(5) *No Violation of Law.* Party A is not in violation of any statute, law, rule or regulation that materially affects or might materially affect Party A's ability to perform its obligations under this Contract or the consummation of the transactions contemplated hereby. Party A is not subject to any judgment, order, writ, injunction, decree or award issued by any Governmental Authority or arbitral body relating to it, or to its property, business or operations, that affects or might affect Party A's ability to perform its obligations under this Contract or the consummation of the transactions contemplated hereby in any materially adverse manner.

(6) *No Pending Claims.* There are no claims, actions, suits, investigations or proceedings pending or, to the best of Party A's knowledge, threatened against Party A, at law or in equity, or before or by any Governmental Authority or arbitral body which, if determined adversely, would have a material adverse effect on Party A's ability to perform its obligations under this Contract or the consummation of the transactions contemplated hereby. Party A is not in default with respect to, and the execution, delivery and performance by Party A of this Contract and the consummation of the transactions contemplated hereby will not conflict with or result in a breach or violation of, any judgment, order, writ, injunction or decree of any Governmental Authority or arbitral body applicable to Party A.

(7) *No Brokerage Commission.* No Person is entitled to any brokerage commission, finder's fee, advisory fee or like payment from Party A in connection with the transactions contemplated by this Contract.

### Article 3.2. *Party B.*

Party B hereby represents as of the date hereof as follows:

(1) *Duly Organized.* Party B is a corporation duly incorporated [, and] validly existing [and in good standing] under the laws of \_\_\_\_\_.

(2) *Duly Authorized.* The execution and performance by Party B of this Contract (i) are within its corporate power and business scope; (ii) have been duly authorized by all necessary corporate action; (iii) do not contravene its constituent documents; and (iv) do not contravene any law or contractual restriction binding on or affecting it.

(3) *No Governmental Consents Required.* No authorization, consent or approval or other action by, and no notice to or filing with, any Governmental Authority is required for the due execution, delivery and performance by Party B of this Contract, except for the approval of this Contract by the Approval Authority.

(4) *Enforceability.* Subject to the approval of this Contract by the Approval Authority, this Contract is the legal, valid and binding obligation of Party B, enforceable against Party B in accordance with its terms.

(5) *No Violation of Law.* Party B is not in violation of any statute, law, rule or regulation that materially affects or might materially affect Party B's ability to perform its obligations under this Contract or the consummation of the transactions contemplated hereby. Party B is not subject to any judgment, order, writ, injunction, decree or award issued by any Governmental Authority or arbitral body relating to it, or to its property, business or operations, that affects or might affect Party B's ability to perform its obligations under this Contract or the consummation of the transactions contemplated hereby in any materially adverse manner.

(6) *No Pending Claims.* There are no claims, actions, suits, investigations or proceedings pending or, to the best of Party B's knowledge, threatened against Party B, at law or in equity, or before or by any Governmental Authority or arbitral body which, if determined adversely, would have a material adverse effect on Party B's ability to perform its obligations under this Contract or the consummation of the transactions contemplated hereby. Party B is not in default with respect to, and the execution of, delivery and performance by Party B of this Contract and the consummation of the transactions contemplated hereby will not conflict with or result in a breach or violation of, any judgment, order, writ, injunction or decree of any Governmental Authority or arbitral body applicable to Party B.

(7) *No Brokerage Commission.* No Person is entitled to any brokerage commission, finder's fee, advisory fee or like payment from Party B in connection with the transactions contemplated by this Contract.

## **CHAPTER 4.**

### **ESTABLISHMENT OF THE COMPANY**

Article 4.1. *Establishment of the Company.*

The Parties agree to establish the Company in accordance with the Joint Venture Law, other relevant PRC laws and regulations and the terms of this Contract as a limited liability equity joint venture company.

Article 4.2. *Name.*

The name of the Company in Chinese is: \_\_\_\_\_

The name of the Company in English is: \_\_\_\_\_

The legal address of the Company shall be at: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

PRC

Article 4.3. *PRC Law.*

The Company shall be a legal person under the laws of the PRC, it shall observe the laws and regulations of China, and its legal rights and operational autonomy shall be fully protected in accordance with the laws and regulations of the PRC.

Article 4.4. *Limited Liability.*

The Company shall be a limited liability company. The liability of each Party under any and all



circumstances shall be limited to the amount of the registered capital expressly subscribed to by it and no Party shall have any further liability to contribute money or other property to, or in respect of, the registered capital, losses, debts, liabilities or other obligations of the Company. The profits of the Company shall be shared by the Parties as set forth in Article 15.7. The Parties shall have no liability for any losses, debts, liabilities or other obligations of the Company beyond the amount of their respective investments in the registered capital of the Company subscribed to by them.

Article 4.5. *Branches.*

With the approval of the local administration bureau for industry and commerce, the Company can establish branches, offices or similar establishments at any location within China.

## CHAPTER 5.

### PURPOSE, SCOPE, AND SCALE OF BUSINESS

Article 5.1. *Purpose.*

The purpose of the Company is to combine the knowledge and experience of the Parties into a jointly-managed organization to engage in the manufacture, sourcing, production, marketing, sale and servicing of the Products in the Territory and to perform such other acts as the Board of Directors directs consistent with this Contract. The initial Products shall include \_\_\_\_\_. Future production by the Company of models sourced will be considered and determined by the Board of Directors based upon sales volume/economics.

Article 5.2. *Scope.*

The business scope of the Company shall include the manufacture, sourcing, production, marketing, sale and servicing of \_\_\_\_\_.

Article 5.3. *Estimated Scale of Production.*

According to the Feasibility Study, the Parties estimate that the Company will achieve the following rates of production of the following Products within the following time periods:

<i>Years After Establishment Date</i>	<i>Product</i>	<i>Quantity</i>
1		_____
2		_____
3		_____
4		_____

The Parties agree that there is no assurance that such production may be achieved by such target dates or at any subsequent date. The actual production figures may be either increased or decreased by the Board of Directors during actual production based on the market situation, improvements in productive capacity and other appropriate factors. The Company may add additional products and production lines as economic and market conditions warrant upon the approval of the Board of Directors.

## **CHAPTER 6.**

### **TOTAL AMOUNT OF INVESTMENT AND REGISTERED CAPITAL**

#### *Article 6.1. Total Investment.*

(1) The total amount of investment in the Company shall be US \$[ ], including: (i) Registered Capital of US \$[ ], and (ii) loans of up to US \$[ ] by \_\_\_\_\_ to the Company for \_\_\_\_\_.

(2) The unit of currency for measuring, among other things, the total investment, registered capital and contributions thereof for purposes of this Contract shall be the United States Dollar. The exchange rate to convert Renminbi contributed by Party A to United States Dollars shall be the average exchange rate between United States Dollars and Renminbi promulgated by the People's Bank of China on the date on which the capital is contributed.

(3) All capital contributions in foreign exchange shall be made to the foreign exchange account of the Company at the office of an authorized bank in \_\_\_\_\_, China.

(4) All capital contributions of the Parties to the Company shall be for the exclusive use of the Company.

#### *Article 6.2. Registered Capital.*

The total registered capital of the Company shall be US \$[\_\_\_\_\_].

#### *Article 6.3. Capital Contributions.*

The respective capital contributions of the Parties shall be as follows:

(1) Party A:

Cash An amount of RMB equal to US \$[ ]

The Parties agree that the contribution of an amount of RMB equal to US \$[\_\_\_\_\_] in cash by Party A to the registered capital of the Company shall equal [x]% of the registered capital of the Company.

(1) Party B:

Cash US \$[\_\_\_\_\_]

The Parties agree that the contribution of US \$[ ] in cash by Party B to the registered capital of the Company shall equal [y]% of the registered capital of the Company.

*Article 6.4. Schedule of Investment Contributions.*

Subject to the conditions set forth in Article 6.5, Party A shall make its capital contributions to the Company in the following installments and no later than the dates set forth below:

*Amount Date*

Cash            An amount of RMB            Within [ninety (90)] days

equal to US \$[ ] after the Establishment Date

Cash            An amount of RMB            Within [ ] days

equal to US \$[ ] after the Establishment Date

(2) Subject to the conditions set forth in Article 6.5, Party B shall make its capital contributions to the Company in the following installments and no later than the dates set forth below:

*Amount Date*

Cash            US \$[ ] Within [ninety (90)] days

after the Establishment Date

Cash            US \$[ ] Within [ ] days

after the Establishment Date

*Article 6.5. Conditions Precedent to Capital Contribution.*

The obligation of each Party to make its respective capital contribution to the Company is subject to the condition precedent that the following documents shall have been duly executed by the relevant parties thereto and delivered to the Parties:

(1) this Contract and the Articles of Association shall have been approved together by the Approval Authority; and

(2) the Company shall have obtained its business license.

Each of the above documents must be satisfactory in form and substance to each Party. If within

[\_\_\_\_\_] (\_\_\_) days after the Effective Date any of the above documents has not been executed and delivered to the Parties in form and substance satisfactory to each Party (or the execution and delivery thereof has not been waived), this Contract may be terminated by any Party by written notice given to the other Parties. If this Contract is terminated pursuant to this Article 6.5, no Party shall have any right whatsoever to require the other Parties to make its capital contribution to the Company or to claim any damages from the other party.

#### Article 6.6. *Loans.*

The difference, if any, between the amount of total investment required and the amount of registered capital of the Company may be raised by the Company by way of loans or other means. The Company may apply for loans in its own name.

#### Article 6.7. *Verification of Capital Contributions.*

An accounting firm registered in China shall be engaged by the Company to verify the capital contributions of each Party and provide a certificate of verification after the Parties have paid up capital contributions. The Company, upon the receipt of a satisfactory certificate of verification, shall issue a Certificate of Capital Contribution to each Party. The Certificate of Capital Contribution shall include the following items: name of the Company; the Establishment Date; the names of the Parties and their respective capital contributions to date; the date on which the capital contributions were made; and the date of issuance of the Certificate of Capital Contribution. The Certificate of Capital Contribution shall be conclusive evidence of the respective Party's capital contribution to the Company to date. The Certificate of Capital Contribution shall be effective when jointly signed by the Chairman and Vice Chairman and the seal of the Company is affixed thereon.

#### Article 6.8. *Increase of Registered Capital.*

The registered capital of the Company may be increased from US \$[\_\_\_\_\_] , provided that any such increase is unanimously approved by the Board of Directors and approved by the Approval Authority. After any such increase in the registered capital, the Parties shall amend the Contract to reflect any change in the relative proportion of the investment of the Parties in the registered capital of the Company.

#### Article 6.9. *Transfer of Equity Interests.*

(1) *Prohibition of Transfer.* Except as provided in Article 20.2 and subject to the procedures and limitations set forth below in this Article 6.9, no Party may transfer all or any part of its equity interest in the Company in any manner whatsoever without the prior consent of the other Parties, the unanimous approval of the Board of Directors, and approval from the Approval Authority.

(2) *Offer Notice.* If any Party shall desire to transfer some or all of its equity interest (the "Transferring Party's Interest") in the Company to any third party other than, in the case of Party B, an Associated Company of Party B, such Party (the "Transferring Party") shall secure a binding written offer (the "Third Party Offer") to purchase the Transferring Party's Interest and shall promptly provide to the other Parties (the "Offerees") written notice (the "Offer Notice") of the Third Party Offer, attached to which shall be a true and complete copy of the Third Party Offer. The price (the "Offer Price") set forth in the Third Party Offer must be payable entirely in cash.

(3) *Irrevocable and Exclusive Offer.* The Offer Notice shall constitute, for a period of sixty (60) days from the date on which it shall have been deemed to be given, an irrevocable and exclusive offer to sell to each Offeree (or any Associated Company designated by an Offeree), at the Offer Price, a portion of the Transferring Party's Interest equal to the proportion that the equity interest in the Company owned by such Offeree bears to the total of the equity interests in the Company owned by all of the Offerees or such lesser portion of the Transferring Party's Interest as such Offeree chooses in its discretion.

(4) *Acceptance of Offer.* Each Offeree may accept the offer set forth in an Offer Notice by giving notice to the Transferring Party, prior to the expiration of such offer, specifying the maximum portion of the Transferring Party's Interest that the Offeree wishes to purchase.

(5) *Notice to Antidilutive Offeree.* If any Offeree does not agree to purchase all of the Transferring Party's Interest to which it is entitled, the Transferring Party shall promptly so notify each Offeree that has so agreed (an "Antidilutive Offeree"), such notice to constitute an offer to sell, irrevocable for fifteen (15) days, to each such Antidilutive Offeree the portion of the remaining Transferring Party's Interest (the "Remaining Interest") equal to the proportion that the equity interest in the Company owned by such Antidilutive Offeree bears to the total of the equity interests in the Company owned by all such Antidilutive Offerees. Each Antidilutive Offeree shall notify the Transferring Party within such fifteen (15) day period, specifying the portion of Remaining Interest which such Antidilutive Offeree agrees to purchase. To the extent that any such Antidilutive Offeree does not fully agree to purchase its proportionate share of the Remaining Interest, the procedures set forth in the two immediately preceding sentences shall be repeated, *mutatis mutandis*, until all the Remaining Interest is sold or until no Party agrees to purchase any more Remaining Interest.

(6) *Payment.* If the Offerees collectively agree to purchase all of the Transferring Party's Interest pursuant to paragraphs (2) through 6.9(5) of this Article 6.9, they shall pay for such Transferring Party's Interest within fortyfive (45) days following completion of the procedures set forth in paragraphs (3) and (5) of this Article 6.9.

(7) *Transfer After Expiration of Offer.* If the offers made by the Transferring Party to the Offerees pursuant to paragraphs (3) and (5) of this Article 6.9 expire without an agreement by one or more Offerees to purchase all of the Transferring Party's Interest, the Transferring Party may transfer the Transferring Party's Interest to the third party within ninety (90) days after the expiration date, subject to (i) obtaining the prior written consent of the Offerees (which consent shall not be unreasonably withheld) and the unanimous approval of the Board of Directors (each Offeree hereby agrees to cause the members of the Board of Directors designated by such Party to approve such transfer) and (ii) the execution and delivery by such third party of an assignment and assumption agreement, in form and substance satisfactory to the Offerees, pursuant to which such third party shall assume all of the rights and obligations of a Party pursuant to or under this Contract. In the event that such transfer is not consummated within such 90-day period, the Transferring Party shall not be permitted to sell its equity interest in the Company without re-complying with the requirements set forth in paragraphs (2) through (7) of this Article 6.9; *provided, however*, that such transfer may be made without so re-complying with such requirements if the transfer was delayed by factors beyond the reasonable control of the Transferring Party and such transfer is consummated within sixty (60) days following the end of such 90-day period.

(8) *Transfer to Associated Company.* Notwithstanding the foregoing but subject to any required approval from the Approval Authority, each of the Party B may transfer all or any part of its respective equity interest in the Company to any Associated Company of either such Party upon notification to the other Parties. With respect to any such transfer, Party A hereby agrees to any such transfer and waives any right of first refusal with respect to such transfer. Party A also hereby agrees to cooperate with Party B to effect such transfer, including causing members of the Board of Directors designated by it to approve such transfer and executing any required documents in connection with such transfer. To the extent that Party B

transfers a part, but not all of its equity interest in the Company to any such Associated Companies, the Parties agree to take such steps as may be advisable to reflect appropriately the addition of such Associated Company as a new Party, including the amendment of this Contract.

*Article 6.10. Additional Equity Transfer Provisions.*

(1) *Effectiveness of Transfer.* Any transfer of a Party's equity interest in the Company under Article 6.9 shall not become effective until all necessary governmental approvals have been obtained. Upon the receipt of such governmental approvals, the Parties shall cause the Company to cancel the then outstanding Certificates of Capital Contribution and to issue new Certificates of Capital Contribution to reflect the new ownership interests. The Parties shall also amend this Contract, if required, to reflect the admission of a new party to this Contract.

(2) *Release of Liability.* If all of the equity interests in the Company owned by any Party are transferred pursuant to and in compliance with Article 6.9, then such Party shall be released from all liabilities under this Contract, except for such liabilities as may have arisen prior to the first date on which such Party ceases to own any equity interest in the Company. The other Parties, as well as any other Person or Persons that may become party to this Contract pursuant to any transfer of any equity interest in the Company, shall execute and deliver an agreement giving effect to the foregoing, in form and substance acceptable to the Party being released.

## **CHAPTER 7.**

### **RESPONSIBILITIES OF EACH PARTY TO THE JOINT VENTURE**

*Article 7.1. Responsibilities of the Parties.*

The Parties shall be responsible for performing their following respective obligations contained in Articles 7.2, 7.3, and 7.4 in a timely and effective manner. The Parties agree that the cost involved in performing the following respective obligations shall be borne by the respective Party except to the extent otherwise agreed by the Parties and the Company or as set forth in any of the Operating Agreements.

*Article 7.2. By Party A.*

Party A shall be responsible for the following:

(1) Upon request from the Company, prior to the Establishment Date, the organizational and preparatory work for the Company;

(2) Upon request from the Company, provide assistance to the Company and the other Parties in liaison activities with all appropriate national and/or local governmental agencies and authorities (including but not limited to those authorities in \_\_\_\_\_ Municipality and \_\_\_\_\_ Province) to cause complete and timely implementation of this Agreement and the transactions contemplated thereby;

(3) Upon request from the Company, provide assistance to the Company and the other Parties in completion of all import formalities, including the obtaining of any required PRC import licenses (if any) for, and assisting the Company to arrange the transportation to the Company's facilities from the

designated port of entry in China of all machinery, materials and equipment to be imported by the Company;

(4) Upon request from the Company, provide assistance to the Company in the arrangement of all export affairs, including the obtaining of any required PRC export licenses (if any) for, and assisting the Company to transport from the Company's facilities to the designated shipping port in China of, all Products to be exported by the Company;

(5) Upon request from the Company, provide assistance to the Company with respect to the expatriate personnel of the Company in connection with the arrangement of PRC entrance and exit formalities, work permit certificates, residence approvals and providing assistance in finding accommodations compatible with the style and standard of living of such personnel in their respective home countries and the making of all PRC domestic travel arrangements;

(6) Upon request from the Company, provide assistance to the Company with respect to Chinese personnel of the Company, selected by the General Manager for training in the United States or elsewhere overseas, in connection with the arrangement of PRC entrance and exit affairs and the making of international travel arrangements from China the United States or such other overseas locations;

(7) Upon request from the Company, provide assistance to the Company and the other Parties in applying for and obtaining the maximum benefit of all permitted reductions in, or exemptions from, PRC, provincial or local income taxes (including withholding taxes), import duties, value added, business and consumption taxes, local surcharges, real estate taxes, vehicle taxes or any other tax reductions or exemptions to which the Company and the other Parties are currently or may in the future become entitled;

(8) Upon request from the Company, provide assistance to the Company in recruiting local personnel;

(9) Upon request from the Company, provide assistance to the Company in procuring machinery, equipment and materials in the PRC;

(10) Upon request from the Company, provide assistance to the other Parties and the Company to obtain from the appropriate PRC Governmental Authorities all necessary licenses and foreign exchange approvals (if any) to permit the repatriation out of the PRC of all profits, dividends, return of capital, proceeds of liquidation and sale of the Company, and payment of interest and principal of any foreign exchange loans provided by foreign banks and entities in foreign exchange, after the payment of applicable PRC taxes;

(11) Upon request from the Company, provide assistance to the Company and the other Parties and the expatriate personnel of the other Parties and the Company to obtain from the appropriate PRC authorities all necessary licenses and foreign exchange approvals (if any) to permit the repatriation of such personnel's salaries and benefit payments in foreign exchange, after payment of applicable PRC taxes;

(12) Contribute capital in accordance with the time schedule set forth in Article 6.4; and

(13) Upon request from the Company, provide assistance to the Company on other matters referred to it by the Company for which Party A agrees to provide assistance.

*Article 7.3. Responsibilities of Party B.*

Party B shall be responsible for the following:

- (1) Provide assistance to the Company with respect to the design of the factory and the installation of equipment;
- (2) Provide assistance to the Company in the selection of equipment and materials to be used in the manufacture of the Products;
- (3) Provide the Company with advanced and appropriate technology for the manufacture of the Products;
- (4) Assist the Company in handling the training of the Company's workers, including overseas training and study if necessary;
- (5) Provide assistance to the Company in developing advanced management techniques;
- (6) Provide assistance to the Company in recruiting management, finance, technology, engineering and other staff;
- (7) Provide assistance to the Company with respect to Chinese personnel of the Company, selected by the General Manager for training in the United States or elsewhere overseas, in connection with the arrangement of overseas entrance and exit affairs (including visa applications), work permits, providing assistance in finding accommodations appropriate for such personnel and the making of international travel arrangements from the United States or such other overseas location to China;
- (8) Provide assistance to the Company in liaison activities with relevant foreign businesses;
- (9) Prior to the Establishment Date, the organizational and preparatory work for the Company;
- (10) Contribute capital in accordance with the time schedule set forth in Article 6.4; and
- (11) Such other matters referred to it by the Company for which Party B agrees to provide assistance.

*Article 7.4. Responsibilities of All Parties.*

Each Party shall be responsible for the following:

- (1) To make their respective capital contributions in the registered capital of the Company pursuant to Article 6.4;
- (2) To ensure that a set of proper books and records of the Company are kept in accordance with "The Accounting System of the People's Republic of China for Foreign Investment Enterprises" and the "Regulations of the People's Republic of China for the Financial Administration of Foreign Investment Enterprises" in the Chinese and English languages;



(3) To refrain from mortgaging, pledging or permitting any liens on any property of the Company and each Party's respective equity interests in the Company without the prior written approval of the Board of Directors;

(4) To cooperate to achieve the purpose and goals of the Company as set forth in this Contract and the Operating Agreements by executing any and all documents and taking all actions necessary or advisable to effect the foregoing;

(5) To prevent any borrowing or lending of money in the name of the Company or establishment of any subsidiary of the Company without the approval of the Board of Directors; and

(6) As soon as practical after the Establishment Date, to cause the Company to enter into the Operating Agreements.

## **CHAPTER 8.**

### **MARKETING**

#### *Article 8.1. General Principles*

In accordance with relevant PRC laws and regulations, the Company shall have the right to price and sell its products and services at its own discretion in both the PRC and abroad and may develop other sales-related services. [The Parties intend that initially one hundred percent (100%) of the Products will be exported pursuant to the Distribution Agreement described in Article 13.1(3) for sales of the Products by Party C.] The Company's products and services may be sold for RMB or foreign exchange, as permitted by applicable law. [Joint branding in the PRC of the Products (other than name-branded Products) shall be phased in over a three (3) year period.]

#### *Article 8.2. Design and Development of New Products.*

Where the Board of Directors has decided that the Company will manufacture and sell any new product in the PRC or a portion thereof, the design and development of such new product shall be conducted primarily by Party B.

#### *Article 8.3. Trademarks; Technology Licensing.*

(1) The Company shall, within [thirty (30)] days after the Establishment Date, enter into the Trademark License Agreements described in Article 13.1(3) pursuant to which Party B and Party D grant to the Company certain licenses to use in the Territory the names ["\_\_\_\_\_"] and trademarks and service marks of Party B and Party D in connection with the manufacture of the Products. The Company shall not obtain licenses to other foreign trademarks without the approval of the Board of Directors.

(2) The Company shall, within [thirty (30)] days after the Establishment Date, enter into the Technology License Agreement described in Article 13.1(3) pursuant to which Party B grants to the Company a license to use in the Territory certain technology in connection with the manufacture of the Products.

## **CHAPTER 9.**

### **FOREIGN EXCHANGE**

#### *Article 9.1. Use of Foreign Exchange.*

Foreign exchange held by the Company shall be used in accordance with applicable laws and regulations and shall be allocated for use in the following priority:

- (1) Payment for imported equipment and materials, the purchase price of which is denominated in foreign currency;
- (2) Repayment of principal and payment of interest on loans to the Company denominated in foreign currency;
- (3) Payment of the salary and other benefits of expatriate employees and payment of travel and other expenses of Directors in connection with their attendance at meetings of the Board of Directors;
- (4) Distributions of profit to the Parties; and
- (5) Such other payments as the Board of Directors may determine.

## **CHAPTER 10.**

### **BOARD OF DIRECTORS**

#### *Article 10.1. Formation of the Board of Directors.*

The Board of Directors of the Company shall come into existence on the Establishment Date and shall convene its first meeting within [ninety (90)] days after the Establishment Date. The Board of Directors shall be the highest organ of authority of the Company. The name list of the initial Directors as designated by the Parties is set forth in *Exhibit B* hereto. The Board of Directors shall have all the authority conferred by law in the conduct of the business of the Company and shall have the responsibility for making significant decisions concerning the management of the business and affairs of the Company.

#### *Article 10.2. Directors.*

The Board of Directors will be comprised of six (6) Directors. Of these, five (5) shall be appointed by Party B and one (1) shall be appointed by Party A. The Chairman shall be designated by Party B, and the Vice Chairman shall be appointed by Party A. The term of office for the Chairman, Vice Chairman and the Directors is for a period of [four (4)] years and may be renewed with the approval of the Party which appointed such Director. The Party that appoints a Director shall have the power to remove such Director from the Board of Directors without cause at any time and to replace the removed Director with another individual designated by such Party. The Directors of the Company shall serve without compensation except as otherwise stipulated in Article 10.4.

Article 10.3. *Chairman of the Board.*

The Chairman of the Board of Directors is the legal representative of the Company and may perform such activities as are authorized in the Articles of Association, or such activities as may be expressly authorized in writing by the Board of Directors. The Chairman shall preside at all meetings of the Board.

Article 10.4. *Meetings of the Board of Directors.*

Regular meetings of the Board of Directors shall be held semiannually in March and September of each year, or such other times as the Parties may agree. At any meeting, a quorum shall consist of at least four (4) Directors attending in person, by proxy or participating by telephone. A meeting shall be duly called if called by the Chairman or by any two (2) Directors in the case of special meetings. All Board of Director meetings shall be called upon seven (7) days' prior written notice (or upon such lesser period of time as the Directors shall unanimously agree in writing from time to time) to all Directors, to be held at the headquarters of the Company, or any other location approved by the Board of Directors. Directors may be present and vote in person, by proxy or by telephone, provided that adequate facilities are available for telephonic participation. The Chairman and the Vice Chairman shall each have the same right of one vote accorded to each of the other Directors. The Board of Directors may take any action within its powers by unanimous written consent of all Directors without necessity of a meeting. Notice of any meeting may be waived in writing at any time before or after the meeting and will be waived by any Director by his or her attendance at such meeting. [All reasonable travel and lodging costs incurred by Directors in connection with their attendance at meetings of the Board of Directors shall be borne by the Company unless the Parties agree otherwise.] All additional requirements and procedures applicable to meetings of the Board of Directors shall be detailed in the Articles of Association.

Article 10.5. *Board Approval Requirements.*

The Board of Directors shall have and exercise all of the powers belonging or pertaining to the Company. Except as otherwise set forth in Article 10.6 or in the Articles of Association, all actions taken by the Board of Directors shall require the vote of a majority of the Directors present or represented at a duly constituted meeting of the Board of Directors.

Article 10.6. *Action Requiring Unanimous Approval.*

Any action taken with respect to any of the following matters shall require the unanimous vote of all Directors:

- (1) Any amendments to this Contract or the Articles of Association;
- (2) Any termination, winding up, liquidation or other dissolution of the Company;
- (3) Increasing the registered capital of the Company, the transfer thereof or the adjustment of the Parties' capital contribution ratio; and
- (4) Any merger of the Company with any other economic organization.

**CHAPTER 11.**

## **BUSINESS MANAGEMENT**

### *Article 11.1. Business Management.*

The management of the Company shall consist of a General Manager, two Deputy General Managers, and Managers of Marketing and Plant which shall be appointed by the Board of Directors. Such Senior Officers shall be nominated by Party B. The day-to-day operation of the Company shall be under the sole direction of the General Manager, and the Deputy General Managers and Managers of Marketing and Plant (“the Functional Managers”) shall report directly to the General Manager. A Deputy General Manager shall act on behalf of the General Manager in carrying out the business of the Company when the General Manager is unavailable. The Functional Managers shall mark the Deputy General Managers for copies of all correspondence from them to the General Manager concerning the business of the Company objectively considered necessary to ensure the Deputy General Managers have access to the same information as the General Manager concerning the business of the Company and likewise the Functional Managers shall mark the General Manager for copies of all correspondence from them to the Deputy General Managers concerning the business of the Company objectively considered necessary to ensure the General Manager has access to the same information as the Deputy General Managers concerning the business of the Company.

### *Article 11.2. Term of Office.*

The General Manager and the Deputy General Managers shall, unless they become incapacitated, retire or are removed from office earlier by the Board of Directors pursuant to Article 11.3, hold office for a term of [four (4)] years each, or such lesser term as is determined by the Board of Directors. The other Senior Officers of the Company shall, unless they become incapacitated, retire or are removed from office earlier by the Board of Directors pursuant to Article 11.3, hold office for a term of [one (1)] year each, or such other term as is determined by the Board. The General Manager and the other Senior Officers may serve consecutive terms if reappointed by the Board of Directors.

### *Article 11.3. Power of Board to Dismiss Senior Officers.*

The General Manager and other Senior Officers of the Company shall not hold posts concurrently as general manager or other senior officers in any other economic organizations nor shall they participate in any economic activity which may compete with the interests of the Company. The Board of Directors may, by a resolution adopted by a simple majority of the Board of Directors, remove the General Manager or any other Senior Officer of the Company at any time without cause. Any management personnel engaging in any graft or other illegal activity may be immediately terminated by the Board of Directors by a resolution adopted by a simple majority of the Board of Directors. If it becomes necessary due to dismissal or resignation to replace the General Manager or any other Senior Officer, the Board of Directors shall determine his replacement; *provided, however*, that the Party that nominated the Senior Officer to be replaced shall nominate the replacement Senior Officer.

### *Article 11.4. Monthly Reports.*

The General Manager shall prepare monthly operational reports [and financial statements] of the Company which shall be in [Chinese and English] unless the Board of Directors waives or modifies such requirement.

### *Article 11.5. Other Voting Agreements.*

Each Party agrees to vote and take all other possible action necessary (including, without limitation, reaffirming or renewing any and all voting agreements set forth in this Contract to the extent required by applicable law) to ensure that the provisions of this Contract and any Operating Agreements are carried out in all respects, and to execute and deliver such additional documents and instruments, and to perform such additional acts, as may be reasonably necessary or appropriate to effectuate, carry out and perform all of the terms, provisions and conditions of this Contract and all Operating Agreements.

## **CHAPTER 12.**

### **PURCHASE OF MATERIALS, EQUIPMENT, AND SPARE PARTS**

#### *Article 12.1. Principles of Procurement.*

The Company may at any time in accordance with its requirements purchase machinery, equipment, spare parts or materials from PRC or foreign suppliers. In purchasing machinery, equipment, spare parts or raw materials required for the Company's activities, the Company shall give priority to PRC suppliers whenever items from such suppliers are competitive with like imported items with respect to quality, specifications, performance, and other materials terms. Party B shall use its best efforts to assist the Company with the procurement of any equipment, materials and supplies which the Company must import.

#### *Article 12.2. Sourcing from Party C.*

The Company shall enter into the Sourcing Agreement described in Article 13.1(3) within [thirty (30)] days after the Establishment Date.

## **CHAPTER 13.**

### **RELATIONSHIP BETWEEN THE COMPANY AND THE PARTIES**

#### *Article 13.1. Independence, Transition and Cooperation.*

(1) Commencing with the Establishment Date, the Company will be an independent economic and legal entity, separate and distinct from each of the Parties, and will be responsible for the management and control of its assets and the management and operation of its business.

(2) Each Party agrees that it will respect the Company's operational autonomy. Unless approved by the Board of Directors at a meeting in accordance with the provisions of this Contract and the Articles of Association, none of the Parties or their employees will directly or indirectly interfere with the Company's plans, production, management, products, marketing, use of funds, personnel, financial, insurance or in any other matters.

(3) After the Establishment Date, the Parties shall enter into, or cause their Associated Companies to enter into, ancillary agreements (each, an "Operating Agreement") with the Company as follows:

(a) Party B will enter into a Technology License Agreement with the Company substantially in the form of *Exhibit C*;

(b) Party B will cause Party C to enter into a Sourcing Agreement with the Company substantially in the form of *Exhibit D*;

(c) Each of Party B and Party D will enter into a separate Trademark License Agreement with the Company, which in the case of Party B will be substantially in the form of *Exhibit E-1* and in the case of Party D will be substantially in the form of *Exhibit E2*;

(d) Each of Party A, Party B and Party D will enter into a separate Service and Information Providing Agreement with the Company, which in the case of Party A will be in the form of *Exhibit F-1*, in the case of Party B will be substantially in the form of *Exhibit F-2* and in the case of Party D will be substantially in the form of *Exhibit F-3*; and

(e) Party B will cause Party C to enter into a Distribution Agreement with the Company for the sales of the Products substantially in the form of *Exhibit G*.

#### Article 13.2. *Personnel.*

The Parties agree that the Company may seek to recruit personnel (including technical personnel) from the labor market.

#### Article 13.3. *Competition with the Company.*

A covenant not to compete in the form of *Exhibit H* is incorporated into this Contract.

### **CHAPTER 14.**

#### **LABOR MANAGEMENT**

##### Article 14.1. *Staff and Workers.*

Labor plans and contracts covering the recruitment, qualifications and testing, employment, dismissal and resignation, wages, labor insurance, welfare, bonuses, labor discipline, retirement insurance and other matters concerning the staff and workers of the Company shall be handled in accordance with the “Labor Law of the People’s Republic of China” the “Regulations on Labor Management in Foreign Investment Enterprises” and other relevant laws and regulations of the PRC and local government.

##### Article 14.2. *Administrative Personnel.*

The appointment of Senior Officers, their salaries, subsidies, social insurance, welfare and standard of travel expenses shall be decided by the Board of Directors.

##### Article 14.3. *Employee Qualifications.*

The total number of people employed by the Company, their compensation and work shift hours shall be determined by the General Manager in accordance with the “Regulations on Labor Management in Foreign

Investment Enterprises” and related laws and regulations and can be changed by the General Manager from time to time to achieve the purposes of the Company.

Article 14.4. *Labor Discipline.*

The Company shall have the widest authority consistent with relevant laws and regulations to implement modern methods for advanced, scientific management and quality control, including the power, which shall be exercised autonomously, to take disciplinary action against any of the workers and personnel by giving warnings, recording demerits, reducing salaries and/or wages and by dismissal. Any dismissal shall be reported to the local labor bureau for the record.

Article 14.5. *Training.*

In order to promote the technical and managerial skills of the Company’s employees, both short and long term training programs shall be implemented by the Company. All training costs, including travel, lodging, meals and insurance shall be paid for by the account of the Company.

Article 14.6. *Compensation.*

(1) The Company shall pay salaries to its expatriate employees in foreign exchange pursuant to the terms of the relevant employment contract to be entered into by the Company and the respective expatriate employee. Expatriate employees shall be permitted, after payment of all PRC income taxes due, to remit such foreign exchange earnings to a designated bank abroad. If requested by the Company or Party B, Party A shall assist expatriate employees in facilitating such transfers.

(2) The expatriate General Manager or any other expatriate Senior Officers who are hired with the approval of the General Manager shall receive salaries and welfare and other benefits from the Company as decided upon by the Board of Directors, including a foreign living allowance which is fair and reasonable by international standards. With respect to expatriate employees, technical experts and staff and their families and foreign consultants to the Company, Party A shall, if requested by the Company, assist such persons in applying for and obtaining PRC entry visas, exit permits and work permits, tax and public security registrations and in facilitating their travel and living arrangements within the PRC, and arranging for appropriate accommodations, communications and medical care and satisfactory meals for such expatriate personnel and their families.

(3) The salaries of the Chinese personnel shall be paid in RMB pursuant to the terms of their employment contract with the Company (including any trade union contract applicable to such personnel).

Article 14.7. *Trade Union.*

The staff and the workers of Company shall have the right to establish a trade union in accordance with the relevant laws of China and actively support the work of the trade union. Meetings of the trade union shall be held only after ordinary working hours. The Company shall pay an amount equal to two percent (2%) of the total wages received by the staff and employees of the Company (or such lesser amount as may be permitted by applicable law from time to time) to the Company’s trade union for such trade union’s use in accordance with the applicable laws of China on the management of trade unions.

**CHAPTER 15.**

## **TAXES, FINANCE, AND AUDIT**

### *Article 15.1. Tax Treatment.*

The Company shall pay income, business, value added and other taxes, and shall enjoy such exemptions from taxation and other tax benefits as may be available to it, in accordance with the relevant laws and regulations of China. The Company shall seek to be treated as a “product export enterprise” and/or “technologically advanced enterprise” so as to enjoy the tax benefits of such status. The Company shall inform the Parties annually as to whether it has qualified for such tax benefits or other tax benefits available to it based upon the nature of its business.

### *Article 15.2. Accounting System.*

(1) The [Manager of Finance] of the Company, under the supervision of the General Manager, shall be responsible for the financial management of the Company.

(2) The financial affairs and accounting of the Company shall be handled in accordance with Accounting System of the People’s Republic of China for Foreign Investment Enterprises” and the “Regulations of the People’s Republic of China for the Financial Administration of Foreign Investment Enterprises” promulgated by the Ministry of Finance of the PRC. The accounting system and procedure to be adopted by the Company shall be submitted to the Board of Directors for approval. Once approved by the Board of Directors, the accounting system and procedures shall be filed with the government department in charge of the Company and with the relevant local department of finance and the tax authorities for the record. The accounting system of the Company shall adopt the methods and principles of the accrual method and debit and credit accounting systems used internationally. All accounting records, vouchers, books and statements of the Company shall be prepared and kept in Chinese and English. The annual, quarterly, and monthly financial statements and reports shall be prepared by the [Manager of Finance] and shall be approved by the General Manager and jointly signed by the General Manager and the [Manager of Finance] and shall be prepared and kept in Chinese and English and furnished to the Parties and to the Board of Directors.

(3) The Company adopts the [RMB] [US\$] as its standard bookkeeping currency. When the currency of a bank deposit, other cash receipt or expenditure, receipt from a claim or expense for a debt is different from the standard bookkeeping currency, the currency of receipt or expenditure shall also be recorded in addition to the standard bookkeeping currency. Actual exchange gains or losses will be recorded in accordance with the relevant regulations.

(4) The fiscal year of the Company shall run from January 1 to December 31 of the same year. All important financial and accounting records and statements shall require the approval and signature of the General Manager [and the Manager of Finance].

(5) [The Company shall deliver to each Party as soon as practicable and in any event within thirty (30) days after the end of each month in each fiscal year, a Profit and Loss Statement and Cash Flow Statement for such month and a Balance Sheet as at the end of such month, setting forth in each case in comparative form figures for the corresponding period in the preceding financial year, all in reasonable detail.]

(6) The Company shall deliver to each Party as soon as practicable and in any event within sixty (60) days after the end of each quarterly period in each fiscal year, a Profit and Loss Statement and Cash Flow Statement for such period, and a Balance Sheet as at the end of such period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail.



(7) At the end of each financial year, the [Manager of Finance] shall prepare the annual accounts (“Annual Accounts”) including the Balance Sheet as at the end of such period, and the Profit and Loss Statement and Cash Flow Statement, setting out all details required by the accounting system and such additional information as will be required to produce financial statements conforming to generally accepted accounting principles in the PRC and to International Accounting Standards.

(8) At the end of each fiscal year, the [Manager of Finance] shall prepare such information as shall be necessary for the preparation of any tax returns and statements as may be required by each Party. This shall include furnishing each Party with certified copies of government receipts for income taxes paid within China.

(9) The Board of Directors and the Parties or their Representatives shall have access to the financial books and records of the Company at all reasonable times.

#### *Article 15.3. Annual Audit and Annual Accounts.*

An internationally recognized accounting firm registered in China and approved by the Board of Directors shall be engaged by the Company, as its independent auditor, to examine and verify the Annual Accounts, and such accounting firm shall submit its report to the General Manager and the [Manager of Finance]. After approval of the Annual Accounts by such Senior Officers, the Company shall submit to the Parties and to each member of the Board of Directors the Annual Accounts as soon as practicable and in any event within one hundred twenty (120) days after the end of the relevant fiscal year, together with the audit report of the independent auditor.

#### *Article 15.4. Foreign Exchange and Renminbi Bank Accounts.*

The Company shall separately open foreign exchange accounts and RMB accounts at banks located in China approved by the People’s Bank of China. The Company may open accounts at banks located abroad upon approval of the State Administration of Foreign Exchange. The Company’s foreign exchange transactions shall be handled in accordance with the relevant laws and regulations of the PRC relating to foreign exchange control. In the event that the Company opens foreign exchange accounts at banks located abroad, deposits of payments received by the Company from any international transactions may be made directly to such accounts. Any conversion of foreign exchange into Renminbi must be approved by the Board of Directors; provided that the Board of Directors may delegate such approval authority to the General Manager.

#### *Article 15.5. Settlement of Expenses.*

Except where payment in foreign exchange is required pursuant to this Contract or other contracts entered into by the Company, or pursuant to any provisions of relevant PRC laws and regulations, all payments to be made by the Company in the PRC (including but not limited to expenses and compensation for labor other than expatriate personnel) shall, unless the Company decides otherwise, be settled and paid by the Company in RMB.

#### *Article 15.6. Funds.*

The Company shall establish and contribute annually from its after-tax profits to a reserve fund, a development fund and a staff and workers welfare and benefit fund. The amount to be contributed to said

funds will be determined by the Board of Directors, subject to applicable laws.

*Article 15.7. Profit Distribution.*

The Company shall distribute to the Parties, pro rata in accordance with their respective registered capital in the Company, as regularly as practicable, the Company's profits distributable as dividends consistent with maintaining the funds described in Article 15.6 and the Company's best interest. The Board of Directors will fully consider Party B's goal of having the Company distribute as dividends the maximum amount of profits possible. In order to facilitate such distribution, each Party shall cause the Directors nominated by it to vote in favor of any approval of the Board of Directors for the distribution of such amounts, including, without limitation, attending or causing the Directors nominated by such Party to attend any meeting of the Board of Directors, called for the purpose of approving such distribution.

*Article 15.8. Carry Over.*

Before a previous fiscal year's losses of the Company have been made good, no profits may be distributed to a Party by the Company. Undistributed profits from a previous fiscal year may be distributed with a current fiscal year's profits or, in cases of losses, to the extent of the accumulated amount in excess of the current fiscal year's losses.

*Article 15.9. Personal Income Tax.*

Staff and workers of the Company shall pay personal income taxes according to the "Individual Income Tax Law of The People's Republic of China" and the implementing regulations therefor. The Company will arrange to withhold from the salary paid to each expatriate employee, and pay over to the tax authorities in accordance with applicable law, the anticipated amount of personal income taxes estimated (in accordance with applicable law and regulations) to be payable in China by such expatriate employee, and shall generally assist each expatriate employee in complying with the requirements of Chinese law concerning such personal income taxes.

*Article 15.10. Appropriation of Foreign Exchange Available.*

Subject to Article 9.3, Party B shall have priority in the distribution of funds from the Company's foreign exchange account(s) for, upon liquidation, its share of the assets of the Company.

## **CHAPTER 16.**

### **DURATION OF THE JOINT VENTURE**

*Article 16.1. Duration.*

The duration of the Company shall be twenty (20) years from the Establishment Date. The duration of the Company may be extended at the end of its term if an application for the extension of the duration, proposed by one Party, and approved by the Board of Directors, shall be submitted to the Approval Authority six (6) months prior to the expiry date of the Company.

## **CHAPTER 17.**

### **INSURANCE**

#### *Article 17.1. Insurance.*

The Parties shall cause the Company to be covered by appropriate insurance policies underwritten by the People's Insurance Company of China or such other insurance company that is permitted to underwrite insurance policies in the PRC.

## **CHAPTER 18.**

### **AMENDMENT, ALTERATION, AND DISCHARGE OF THE CONTRACT**

#### *Article 18.1. Amendments: Waivers.*

During the term of this Contract the Parties shall have the right to make amendments and supplements after consultations between the Parties. Neither this Contract nor any subsequent agreement the effect of which is to amend this Contract shall be binding on any Party to this Contract unless and until it has been signed on such Party's behalf by a duly authorized representative and approved by the Approval Authority and commencement of performance hereunder or under any such subsequent agreement shall not constitute a waiver of this requirement.

#### *Article 18.2. Improvement in Terms.*

If, after the date hereof, the issuance, amendment, supplement or rescission by the PRC, \_\_\_\_\_ Municipality or any subdivision or agency thereof, of any tax, foreign exchange, customs or any other laws, rules, regulations or decrees, or the interpretation thereof permits terms and conditions more favorable to the Company or any Party than the terms of this Contract or the laws, rules, regulations and decrees applicable to the Company as of the date of this Contract, the Company or such Party or both shall receive the benefits of such new conditions, and Party A shall exercise its best efforts to assist the Company to obtain the appropriate PRC approvals, if any, required to qualify for the benefit of such new laws, rules, regulations, decrees or interpretation thereof. If only one Party is entitled to the benefits of any such favorable treatment and such treatment has an unfavorable effect on the other Party, the Parties shall immediately consult to determine if there is a result that is acceptable to both Parties. During the pendency of any such consultations, the Parties shall temporarily not implement any such favorable treatment.

#### *Article 18.3. Amendment By Reason of Adverse Changes in Law.*

If a Party's economic benefits under this Contract are directly or indirectly (through its interest in the Company) adversely affected because of any change in PRC tax, foreign exchange, customs or other laws, rules, regulations or decrees, or the interpretation thereof, or any amendment or supplement to or rescission thereof, including, without limitation, any adverse variation from the Company's preferential PRC tax treatment, the Company's ability to import materials for export products free of PRC customs duties and the Company's ability to maintain a foreign exchange account in China, retain its foreign exchange earnings and exchange currency at foreign exchange swap centers and/or designated foreign exchange banks, by the PRC or any subdivision or agency thereof, the affected Party or Parties shall promptly give notice of such occurrence and the Parties shall, upon receipt of such notice, immediately consult and make

the necessary amendments to the relevant provisions of this Contract in order to maintain each Party's respective economic benefits hereunder. Party A shall exercise its best efforts to assist the Company to procure approval for such amendments from the Approval Authority.

## **CHAPTER 19.**

### **LIABILITIES FOR BREACH OF OBLIGATION TO MAKE CAPITAL CONTRIBUTIONS**

#### *Article 19.1. Failure to Make Capital Contributions When Due.*

Should any Party fail to pay on schedule its respective capital contribution in accordance with the provisions of Chapter 6, the breaching Party shall pay to the other Parties (the "Non-Defaulting Parties"), pro rata in proportion to the equity interest in the Company owned by a Non-Defaulting Party to the total of the equity interests in the Company owned by all of the Non-Defaulting Parties, in cash as a penalty an amount equal to [0.05]% per day of the value of the capital contribution which was not made when due for each day following the date when such capital contribution was due but not made. If such capital contribution is not paid within three (3) months of the date when it is due, the provisions of Article 20.1 shall apply.

## **CHAPTER 20.**

### **TERMINATION**

#### *Article 20.1. Termination Events.*

If any of the following conditions or events (each a "Termination Event") shall occur and be continuing:

(1) *By Agreement.* The Parties shall agree to terminate this Contract and liquidate the Company voluntarily prior to the expiration of the term of the Company; or

(2) *Heavy Losses; Bankruptcy.* If the Company suffers heavy losses of more than [fifty percent (50%)] of the registered capital of the Company from which it cannot financially recover or the Company is declared bankrupt, or any action by or against the Company is commenced to wind up or liquidate the Company and such action is not dismissed within [sixty (60)] days; or

(3) *Inability of Board to Resolve Matters.* The Board of Directors is unable for a period of [forty-five (45)] days to make a determination on any matter material to the operation of the Company and such matter fails to be resolved to the satisfaction of all parties by the Officials, or their Representatives, through friendly consultation within sixty (60) days after its submission by the Board of Directors (the Officials, or their Representatives, shall use their best efforts to make such determination amicably through friendly consultation) and the issue has not been submitted for resolution pursuant to Article 25.2; *provided, however,* that the continued failure or inability to resolve or otherwise determine any such matter shall be of such a nature as could materially adversely affect the business operations of the Company; or

(4) *Force Majeure.* The Company is unable to continue operations for [six (6)] consecutive months or more because of force majeure as described in Chapter 22; or

(5) *Failure to Obtain Approvals.* The Company fails to obtain the approvals required under Article 18.2 or Article 18.3; or

(6) *Material Breach.* A Party shall commit a material breach of this Contract or any of the Operating Agreements to which it is a party, the effect of which would have a material adverse effect on the business operations of the Company, and such Party fails to remedy same within ninety (90) days after delivery of notice by any other Party of the occurrence or existence of such breach or such longer period as may be agreed by the non-defaulting Parties; or

(7) *Appointment of Receiver.* A Party shall apply for or consent to the appointment of a receiver, trustee or liquidator for substantially all of its assets or such a receiver, trustee or liquidator shall be appointed, or such Party shall have filed against it an involuntary petition of bankruptcy which has not been dismissed within thirty (30) days, or shall file a voluntary petition of bankruptcy, or a petition or answer seeking reorganization, or an arrangement with creditors, or shall seek to take advantage of any other law relating to relief of debtors, or shall make an assignment for the benefit of creditors; or

(8) *Merger.* Without limiting the generality of Article 20.1(10), a Party shall consolidate with or merge with or into another entity, whether or not such Party is the surviving entity of such transaction, unless immediately after such consolidation or merger, the owners of the equity interests in such Party prior to the transaction continue to own directly or indirectly more than fifty percent (50%) of the new or surviving entity; or

(9) *Sale of Substantially All Assets.* Without limiting the generality of Article 20.1(10), a Party shall sell or otherwise dispose of, or enter into an understanding, agreement or commitment to sell or otherwise dispose of, (i) all or substantially all of its assets or (ii) all or substantially all of the assets of such Party's business component which is primarily responsible for carrying out the obligations of this Contract, to a third party (other than, in the case of Party B, to its Associated Companies); or

(10) *Acquisition by Third Party.* If a third party (other than, in the case of Party B, to its Associated Companies) acquires twenty percent (20%) or more of the outstanding equity interests in such Party, and any other Party determines, in its reasonable judgment, that (i) such third party is a competitor of the Company or (ii) such acquisition of the equity interests by the third party is detrimental to the business of such other Party, the Company or any Associated Company of such other Party; or

(11) *Transfer of Equity Interest in Violation of Agreement.* A Party shall transfer any of its equity interest in the Company to a third party in violation of the provisions of Article 6.9 and, upon application by any other Party to invalidate such transfer, the Approval Authority refuses to invalidate the transfer or fails to respond to such application within three (3) months following the date on which such application is made; *provided*, that such circumstances shall constitute a Termination Event only upon the declaration of any non-transferring Party; or

(12) *Expropriation of Assets.* All or any material portion of the assets of the Company are nationalized, expropriated or otherwise confiscated by any PRC national, provincial or local authority; or

(13) *Failure to Agree Regarding Amendments.* The Parties shall fail to agree upon the amendments required by Article 18.3;

then, in any such event, the provisions of Articles 20.2 and 20.3 shall apply.

Article 20.2. *Sale Upon Termination.*

If a Termination Event as set forth in Article 20.1 occurs and is continuing and one of the Parties has notified the other Parties thereof, Party B may purchase the equity interest of Party A in the Company and continue to operate the Company in accordance with the following terms:

(1) *Appraisals; Determination of Going Concern Value.* Each of Party A and Party B shall, within forty-five (45) days after delivery of notice of such Termination Event, appoint one (1) internationally-recognized certified public accounting firm (other than any firm that is then acting or in the past has acted as the primary accounting firm of the Company or as the primary accounting firm of any of the Parties) which shall have passed the qualification verification by the relevant Governmental Authorities, to calculate the Going Concern Value of the Company. Each accounting firm shall issue a written appraisal report setting forth the Going Concern Value of the Company within forty-five (45) days after the date on which such accounting firm was appointed. If the two appraisals differ by ten percent ( $[x]\%$ ) or less, the average of the two appraisals shall be adopted as the Going Concern Value of the Company. If the two appraisals differ by a margin of more than ten percent ( $[x]\%$ ), then the two accounting firms shall jointly select a third internationally-recognized certified public accounting firm (other than any firm that is then acting as the primary accounting firm of the Company or as the primary accounting firm of any of the Parties) to calculate the Going Concern Value of the Company (which appraisal shall be within the range of valuations established by the first two appraisals), and the calculation by such accounting firm of the Going Concern Value of the Company shall be final and binding for all purposes. The third accounting firm shall complete its appraisal report within thirty (30) days of its appointment. The expense of the valuation proceedings shall be borne by the Parties pro rata in the proportion that the equity interest in the Company owned by a Party bears to the total of the equity interests in the Company owned by all of the Parties. If either Party A or Party B fails to appoint an independent and competent accounting firm within the time limit set forth above, the appraisal prepared by the accounting firm appointed by the other Party in accordance with the foregoing provisions shall be deemed to be final and conclusive and shall be adopted as the Going Concern Value.

(2) *Option of Party A to Transfer Equity Interest—Termination Under Certain Provisions.* If a Termination Event described in paragraphs (6), (8), (9), (10) or (11) of Article 20.1 exists with respect to Party B, commencing on the date Party A receives notice of the Going Concern Value of the Company, Party A shall have the option to transfer its equity interest in the Company to Party B at a price equal to the product of (x) one hundred ten percent ( $1[x]\%$ ) of the Going Concern Value of the Company as determined pursuant to paragraph 1.1(1) above *multiplied* by (y) Party A's Percentage of the registered capital of the Company at the time of the purchase. Party A's ability to exercise this option shall lapse [forty-five (45)] days after the receipt of such notice. Party A shall exercise such option by sending written notice thereof to Party B.

(3) *Option of Party B to Purchase Equity Interest—Termination Under Certain Provisions.* If a Termination Event described in paragraphs (6), (8), (9), (10) or (11) of Article 20.1 exists with respect to Party A, commencing on the date Party B receives notice of the Going Concern Value of the Company, Party B shall have the option to purchase Party A's equity interest in the Company at a price equal to the product of (x) ninety percent (90%) of the Going Concern Value of the Company as determined pursuant to paragraph 1.1(1) above *multiplied* by (y) Party A's Percentage of the registered capital of the Company at the time of the purchase. Party B's ability to exercise this option shall lapse [forty-five (45)] days after the receipt of such notice. Party B shall exercise such option by sending written notice thereof to Party A.

(4) *Option of Party B to Purchase Equity Interest—Other Provisions.* If a Termination Event that is not covered by paragraphs (2) and (3) of this Article 20.2 exists, commencing on the date Party B receives notice of the Going Concern Value of the Company, Party B shall have an option to purchase Party A's equity interest in the registered capital of the Company at a price equal to the product of (x) the Going

Concern Value of the Company as determined pursuant to paragraph (1) above *multiplied* by (y) Party A's Percentage of the registered capital of the Company at the time of such purchase. Party B's ability to exercise this option shall lapse [forty-five (45)] days after the receipt of such notice. Party B shall exercise such option by sending written notice thereof to Party A.

(5) *Contract Evidencing Transfer Under Option.* If either of Party A or Party B chooses to exercise its option as set forth in this Article 20.2, then they shall forthwith enter into a contract setting forth the transfer of such equity interests in the Company and the purchase price as determined pursuant to paragraph (2), (3) or (4), as the case may be, of this Article 20.2. Payment of the purchase price pursuant to such option shall be made by Party B not later than [sixty (60)] days after the date on which such contract has obtained all required government approvals. If such government approvals cannot be obtained within [sixty (60)] days after the date on which such option is exercised (or such later date as may be determined by the Party exercising the option in its sole discretion), such contract, at the option of the Party exercising the option, shall be null and void, and the provisions of Article 20.3 shall apply.

(6) *Form of Purchase Price.* The payment of the purchase price shall be in United States Dollars.

#### Article 20.3. *Termination.*

Upon:

(1) the failure of the Parties or the Company, as set forth in paragraph 1.1(5) of Article 20.2, to obtain government approval for the purchase contract in respect of either Party's exercise of the options set forth in such Article 20.2, or

(2) the failure of both Party B and Party A to exercise their options pursuant to Article 20.2 within the time periods set forth therein, or

(3) the failure by both Party B and Party A to appoint accountants pursuant to paragraph (1) of Article 20.2 within [thirty (30)] days after delivery by any Party to the other of notice of the occurrence of a Termination Event [(except in the case of a Termination Event as described in paragraph (5) of Article 20.1)], or

(4) written notice by a Party to the other Parties that a Termination Event as described in paragraph (5) of Article 20.1 has occurred, or

(5) the expiration of the Company's original term (if not extended) or any extension thereof,

then the Company shall be dissolved and the Contract terminated in accordance with the Joint Venture Law, the implementing regulations issued thereunder and the Articles of Association, and it shall be deemed as if the Board of Directors has made a unanimous approval for the Company to be dissolved.

## **CHAPTER 21.**

### **DISPOSAL OF THE ASSETS ON DISSOLUTION**

Article 21.1. *Liquidation Committee.*

Upon the expiry of the Company's term or upon earlier termination of this Contract, the Board of Directors shall establish a Liquidation Committee in accordance with the "Implementation Regulations of the PRC on Joint Ventures Using Chinese and Foreign Investment," "Provisions on Liquidation of Foreign Investment Enterprises," and other relevant laws and governmental regulations. The Liquidation Committee shall establish procedures for liquidation of the assets of the Company and settling the liabilities thereof as described below. The Liquidation Committee shall consist of one (1) member appointed by Party A and six (6) members appointed by Party B. One of the members appointed by Party B shall be the Chairman of the Liquidation Committee and the member appointed by Party A shall be the Vice Chairman of the Liquidation Committee. Such members may be, but are not required to be, members of the Board of Directors.

Article 21.2. *Liquidation Procedure.*

The Liquidation Committee shall render a full and complete accounting of the Company's property and assets, and liabilities; prepare detailed schedules of liabilities and assets; propose a settlement scheme; and supervise the implementation thereof after approval by the Board of Directors.

Article 21.3. *Legal Actions.*

The Liquidation Committee may represent the Company in bringing or defending any legal actions on behalf of the Company.

Article 21.4. *Priority Disbursements.*

Liquidation expenses and expenses of the Liquidation Committee and the wages of the members of the liquidation working group shall be paid out of the remaining assets of the Company by according such expenses a first priority in the distribution of such assets. Liquidation costs include:

- (1) fees required for the management, sale and distribution of the Company's assets;
- (2) public announcement and litigation and arbitration fees; and
- (3) other fees incurred in the course of liquidation.

Article 21.5. *Residual Assets.*

After the Liquidation Committee has settled all the legitimate debts of the Company (including tax) (including, if applicable, the expenses of the Liquidation Committee in accordance with Article 21.4), the remaining assets, shall be distributed to the Parties in accordance with their respective Percentage of the registered capital. As between the Parties, Party B shall have first priority with respect to any remaining foreign exchange assets of the Company provided that in all events the remaining assets will be distributed to the Parties in accordance with their respective interests.

Article 21.6. *Publication.*



After all accounts have been settled, the Company shall present a report approved by the Liquidation Committee and the Board of Directors to the Approval Authority (a copy of which shall be delivered to each Party) and shall complete formalities with the \_\_\_\_\_ Municipal Administration Bureau for Industry and Commerce to cancel the Company's business registration, return the business license, and at the same time make a public announcement.

## **CHAPTER 22.**

### **FORCE MAJEURE**

#### *Article 22.1. Force Majeure.*

Any party to this Contract shall be excused from its obligations hereunder when and to the extent that performance is delayed or prevented by any event of Force Majeure. "Force Majeure" shall mean any event beyond the reasonable control of a Party, and which is unavoidable notwithstanding the reasonable care of the Party or Parties affected, and shall include force of nature, fire, explosion, geological change, storm, flood, earthquake, lightning, act of war, or total or partial failure of the sources of supply of materials or energy or of means of transportation. The Party or Parties affected by Force Majeure which seeks to excuse its performance under this Contract or under any of the provisions hereunder shall promptly notify the other Party to this Contract advising of the excuse and the steps it will take to complete such performance. Each Party seeking the excuse will be excused from such performance to the extent such performance is delayed or prevented provided that the Party or Parties so affected shall use the utmost reasonable practicable efforts to complete such performance. The Parties agree to resume performance hereunder with the utmost dispatch whenever the causes of such excuse are cured or remedied.

## **CHAPTER 23.**

### **CONFIDENTIALITY**

#### *Article 23.1. Disclosure Limitation.*

Each Party shall maintain in confidence all confidential information (oral or written) identified as such received from the Company or the other Parties, whether of a commercial or technical nature ("Confidential Information"), shall use such Confidential Information only for the benefit of the Company and shall not disclose any such Confidential Information to a third party or make any unauthorized use thereof. Each Party shall treat such Confidential Information with the same degree of care against disclosure or unauthorized use which it affords to its own confidential information of a similar nature or a reasonable degree of care, whichever is greater. The obligation of confidential treatment shall not apply to any Confidential Information that (i) has become generally available in the public domain, (ii) was in the receiving Party's possession prior to disclosure as evidenced by documentary records, (iii) was independently developed by the receiving Party, provided that the Person(s) developing the same did not have prior access to Confidential Information received from the Company or the other Parties or (iv) was received from a third party who had a right to disclose such information. Notwithstanding the foregoing obligations, any Party may use, disclose or have an interest in any technology or know-how belonging to the Company pursuant to a valid license from or agreement with the Company.

#### *Article 23.2. Required Actions.*

In furtherance, and not in limitation, of the foregoing, each Party agrees to do the following with respect to all such Confidential Information of the other Parties or the Company: (i) instruct and require all of its Representatives to maintain the confidentiality of such Confidential Information and not to use such Confidential Information except as expressly permitted herein; and (ii) restrict disclosure of such Confidential Information to those of its Representatives who have a “need to know” consistent with the purposes for which such Confidential Information was disclosed. Each Party further agrees not to remove or destroy any proprietary or confidential legends or markings placed upon any documentation or other materials.

#### *Article 23.3. Permitted Disclosures.*

In the event that a Party or any of its Representatives is requested pursuant to or required by the disclosure requirements of any rule, regulation or form of any Governmental Authority or by oral questions, interrogatories, requests for information or documents by any Governmental Authority or other Person in legal proceedings, subpoenas, civil investigative demands or other similar processes to disclose any of the Confidential Information received from a disclosing Party or the Company, the recipient Party so requested or required or whose Representative has been so requested or required shall provide the disclosing Party or the Company, as the case may be, with prompt written notice of any such request or requirement so that the disclosing Party or the Company, as the case may be, may object to production, seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Contract. The recipient Party or representative shall exercise its best efforts (at the sole expense of the disclosing Party) to preserve the confidentiality of such Confidential Information, including, without limitation, by cooperating with the disclosing Party or the Company, as the case may be, to obtain an appropriate protective order or other reliable assurance that confidential treatment will be accorded such Confidential Information. If, in the absence of a protective order or other remedy or the receipt of a waiver of the disclosing Party, such recipient Party or any of its representatives is nonetheless legally compelled to disclose such Confidential Information to any tribunal or else stand liable for contempt or suffer other censure or significant penalty, such recipient Party or representative may, without liability hereunder, disclose to such tribunal only that portion of the Confidential Information which is legally required to be disclosed.

### **CHAPTER 24.**

#### **APPLICABLE LAW**

##### *Article 24.1. Applicable Law.*

The formation of this Contract, its validity, interpretation, execution and settlement of any disputes arising hereunder shall be governed by and construed in accordance with the laws of the PRC.

### **CHAPTER 25.**

#### **SETTLEMENT OF DISPUTES**

##### *Article 25.1. Consultation.*

In the event of any dispute, controversy, or claim arising out of or relating to any provision of this Contract or the interpretation, enforceability, performance, breach, termination, or validity hereof, including, without limitation, this Chapter 25 (a “Dispute”), the Parties shall attempt, in good faith, to amicably resolve the

Dispute. Any Party may give the other Parties written notice of any Dispute not resolved in the normal course of business. Within twenty (20) days after receipt of said notice, the General Manager and the Deputy General Managers shall negotiate in good faith to resolve the Dispute. If such individuals are not successful, the matter shall be referred to the Officials who shall confer in an attempt to agree on a resolution of the Dispute. If either the relevant individuals or the Officials are successful, the Parties shall take all action necessary to ensure that their resolution of the Dispute is implemented in a manner consistent with all requirements of applicable law. If the Dispute has not been resolved within one hundred twenty (120) days of the receipt of the disputing Party's notice by the other Parties, or if the other Parties will not meet within twenty (20) days of its receipt of such notice, any Party may submit the Dispute to arbitration as provided in Article 25.2. If an executive of a Party intends to be accompanied at a meeting by an attorney, the executives of the other Parties shall be given at least five (5) business days notice of such intention and may also be accompanied by attorneys.

*Article 25.2. Arbitration.*

(1) Any Dispute that is not resolved pursuant to Article 25.1 within one hundred twenty (120) days of the receipt of the disputing Party's notice by the other Parties, or that may otherwise be referred to arbitration pursuant to Article 25.1, shall be referred to and finally resolved by arbitration under the Rules of Conciliation and Arbitration of the International Chamber of Commerce in force at that time which rules are deemed to be incorporated by reference into this Article 25.2, by three arbitrators appointed by \_\_\_\_\_. The language of arbitration shall be English and the place of arbitration shall be \_\_\_\_\_.

(2) The award of the arbitrator(s) shall be the sole and exclusive remedy between the Parties regarding any and all claims and counterclaims with respect to the subject matter of the Dispute and shall be binding and conclusive upon the Parties, their successors and assigns, and each shall comply in good faith with any and all rulings of the arbitrator(s).

(3) Judgment upon the award of the arbitrators may be entered in any court of competent jurisdiction.

(4) Notwithstanding the foregoing, where such a Dispute exists, either Party A or Party B is also a party to an arbitral proceeding arising out of the same transaction or series of related transactions, and there is a possibility of conflicting rulings on a common issue of law or fact, the parties shall, if the other parties to such arbitral proceeding agree, consolidate such proceeding and the arbitration hereunder.

*Article 25.3. Operation of the Company.*

Throughout the pendency of any dispute or difference submitted to the Officials or their representatives for resolution pursuant to Article 25.1 or to arbitration pursuant to Article 25.2, the Company shall continue to conduct its business activities in accordance with the business plans for the Company then in effect.

## **CHAPTER 26.**

### **LANGUAGE**

*Article 26.1. Language of the Contract.*

This Contract is written both in the Chinese and English languages. Both versions shall have equal validity.

## CHAPTER 27.

### EFFECTIVENESS OF THE CONTRACT AND MISCELLANEOUS

#### Article 27.1. *Effective Date.*

The Contract shall become effective on the Effective Date.

#### Article 27.2. *Prior Agreements.*

This Contract and its Exhibits, which are hereby incorporated by reference as inseparable and integral parts of this Contract, constitute the whole and entire agreement between the Parties and shall supersede any other previous oral or written agreements or communications among the Parties relating to the Company or the joint venture among the Parties.

#### Article 27.3. *Waiver.*

Waiver by any Party of a breach of or right under this Contract must be in writing and will not constitute a waiver of any other or subsequent breach or right.

#### Article 27.4. *Notice.*

In any case where any notice or other communication is required or permitted to be given hereunder, such notice or communication shall be in writing and (i) personally delivered, (ii) sent by international air courier service with confirmation of delivery requested or (iii) transmitted by fax as follows:

If to Party A: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Fax: \_\_\_\_\_

Tel: \_\_\_\_\_

If to Party B: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Fax: \_\_\_\_\_

Tel: \_\_\_\_\_

All such notices or other communications shall be deemed to have been given and received (i) upon receipt if personally delivered, (ii) when delivery is confirmed if sent by international air courier service and (iii) when confirmed (either orally or in writing) if by fax.

*Article 27.5. Table of Contents; Headings.*

The table of contents and chapter, article and other headings of this Contract are for convenience of reference only and still not be deemed or construed as in any way limiting or extending the language of the provisions to which the table of contents and such chapters, articles and other headings may refer. Unless otherwise stated, references to Chapters, Articles and Exhibits herein are references to Chapters, Articles and Exhibits hereof.

*Article 27.6. Severability.*

If any provision of this Contract should be or become fully or partly invalid, illegal or unenforceable in any respect for any reason whatsoever, the validity, legality and enforceability of the remaining provisions of this Contract shall not in any way be affected or impaired thereby.

*Article 27.7. Original Copies.*

This Contract is executed in three (3) original counterparts each of which shall have equal effect in law.

IN WITNESS WHEREOF, the Parties hereto have signed this Contract as of [ ], \_\_\_\_\_.

PARTY A:

By: \_\_\_\_\_

Name:

Title:

PARTY B:

By: \_\_\_\_\_

Name:

Title

## **EQUITY TRANSFER AGREEMENT**

This EQUITY TRANSFER AGREEMENT (this “Agreement”) is entered into on the \_\_\_\_ day of \_\_\_\_\_, by the following four parties:

1. Name: \_\_\_\_\_

(the “Transferor”)

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Legal Representative:

Title:

Nationality:

2. Name: \_\_\_\_\_

(the “Chinese Partner”)

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Legal Representative:

Title:

Nationality:

3. Name: \_\_\_\_\_

(the “Company”)

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Legal Representative:

Title:

Nationality:

4. Name: \_\_\_\_\_

(the “Transferee”)

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Legal Representative:

Title:

Nationality:

WHEREAS:

1. The Company was originally organized under the Joint Venture Agreement for the Company between the Transferor and the Chinese Partner on [\_\_\_\_\_, \_\_\_\_\_] (the “Original Agreement”) and the Articles of Association for the Company (the “Original Articles”). The Original Agreement and the Original Articles became effective on [\_\_\_\_\_, \_\_\_\_\_] with the approval of the [\_\_\_\_\_] (hereinafter referred to as the “Original Approval Authority”) (approval document no. \_\_\_\_\_).

2. According to the Capital Payment Verification Report issued by [the CPA firm] on [\_\_\_\_\_, \_\_\_\_\_] (the “Capital Payment Verification Report”), as of the date of verification, the Transferor had invested USD \_\_\_\_\_ in the Company, and the Chinese Partner had invested USD \_\_\_\_\_ in the Company; giving the Transferor [x]% and the Chinese Partner [y]% of the paid-up registered capital of the Company.

3. On [\_\_\_\_\_, \_\_\_\_\_], the Transferor, the Transferee and [XYZ] Bank (hereinafter referred to as the “Lender”) entered into and executed a loan agreement (hereinafter referred to as the “Loan Agreement”), pursuant to which [XYZ] Bank provided to the Transferor a [US\$ \_\_\_\_\_] credit facility with the Transferee acting as the Loan Agent.

4. In order to induce the Lender to make Loans under the Loan Agreement, the Transferor and the Transferee proposed and are to sign a pledge agreement (the “Pledge Agreement”), pursuant to which the Transferor is to pledge and assign, to the Transferee as the Security Agent thereunder, for the ratable benefit of the Lender, the Lender and/or the Loan Agent, the [x]% equity interest it holds in the Company as a continuing security for the due and punctual payment of its obligations under the Loan Agreement.

5. It is a condition precedent to, among other things, the execution and effectuation of the Pledge Agreement that the Chinese Partner agrees to the equity transfer contemplated by this Agreement upon the occurrence of any Event of Default listed in Article [\_\_\_\_\_] of such proposed Pledge Agreement (an “Event of Default”); and the Transferee and the Lender are relying on the undertakings of the Chinese Partner and the undertakings of the Transferor herein;

NOW, THEREFORE, the Chinese Partner, the Transferor and the Company hereby agree with the Transferee for the ratable benefit of the Transferee, the Lender and/or the Loan Agent as follows:

1. *Equity Transfer.*

a) *Transfer of Equity Interest.* The Transferor hereby agrees to transfer all of its [x]% equity interest in the Company to the Transferee, or at its direction, to any third party or parties, to satisfy its obligations, for the ratable benefit of the Transferee, the Lender and/or the Loan Agent, under the Loan Agreement and the proposed Pledge Agreement, upon the occurrence of any Event of Default.

b) *Acceptance of Equity Interest.* The Transferee hereby agrees to accept such [x]% equity interest in the Company from the Transferor to set off all or any part of the Transferor’s obligations under the Loan Agreement and the proposed Pledge Agreement upon the occurrence of any Event of Default.

c) *Waiver of Right of First Refusal.* The Chinese Partner hereby agrees to the aforementioned equity transfer from the Transferor to the Transferee and further waives its right of first refusal with respect to such equity transfer.

d) *Valuation of Equity Interest.* Both the Transferor and the Transferee agree that, for purposes of satisfying the Transferor’s obligations under the Loan Agreement and the proposed Pledge Agreement, the value of the Transferor’s equity in the Company to be transferred shall equal to (i) USD \_\_\_\_\_ as stated in the aforementioned Capital Payment Verification Report or (ii) [x]% of the amount of the book value of the Company’s total assets at the time of delivery of a notice of default minus the Company’s total liabilities at such times, whichever is less. Such book value of the Company’s total assets and total liabilities shall be determined by an independent certified public accountant registered in China and acceptable to both the Transferor and the Transferee, within five (5) days after delivery of a notice of



default by the Transferee to the Transferor upon the occurrence of any Event of Default. The expenses and fees in connection therewith shall be borne by the Transferor.

e) *New Capital Payment Verification Report.* Following the aforementioned equity transfer, the Chinese Partner and the Transferee shall cause the Company to immediately engage a China-registered accountant to verify the capital contributions of both parties after such equity transfer and issue a new Capital Payment Verification Report to reflect the replacement of the Transferor by the Transferee as the holder of 80% of the equity in the Company.

f) *Cessation of Transferor's Participation and Rights in Company.* Following such transfer, the Transferor shall cease to have any direct or indirect, formal or informal, participation in the business and financial affairs and operations of the Company and, shall cease to have any rights over any tangible or intangible capital assets of the Company.

## *2. Transferor's Representations and Warranties.*

a) *Representations and Warranties.* The Transferor represents and warrants as to itself that:

(i) *Duly Organized.* It is duly incorporated, validly existing and in good standing under the laws of the country of its incorporation;

(ii) *Duly Executed.* The execution, delivery and performance of this Agreement by it:

(1) are within its corporate power and business scope;

(2) have been duly authorized by all necessary corporate action for proper authorization;

(3) do not contravene any law or contractual restriction binding on or affecting it;

(iii) *Enforceability.* Subject to the approval of the Original Approval Authority, this Agreement constitutes its legal, valid and binding obligations enforceable in accordance with its terms;

(iv) *Ownership.* The Transferor holds complete and valid ownership and disposition rights in and to the equity to be transferred to the Transferee pursuant to Section 1;

(v) *Governmental Approval.* The equity transfer to the Transferee hereunder requires no approval from any governmental authority other than the Original Approval Authority;

(vi) *No Liens.* There exists no mortgage, pledge, lien, other security interest, preferential right or trust right whatsoever over the equity to be transferred to Transferee hereunder.

b) *Indemnity for Breach.* The Transferor undertakes to indemnify the Transferee against any losses that may result from untruthful representations and warranties in Section 2(a) above.

## *3. Transferee's Representations and Warranties.* The Transferee represents and warrants as follows:

a) *Duly Organized*. It is a corporation duly incorporated, validly existing and in good standing under the laws of the country of its incorporation.

b) *Duly Executed*. The execution, delivery and performance of this Agreement by the Transferee:

(i) are within its corporate power and business scope;

(ii) have been duly authorized by all necessary corporate action for proper authorization;

(iii) do not contravene any law or contractual restriction binding on or affecting the Transferee.

c) *Enforceability*. Subject to the approval from the Original Approval Authority, this Agreement constitutes its legal, valid and binding obligations enforceable in accordance with its terms.

4. *Chinese Partner's Representations and Warranties*. The Chinese Partner represents and warrants as follows:

a) *Duly Organized*. It is a corporation duly incorporated and validly existing under the laws of the People's Republic of China.

b) *Duly Executed*. The execution, delivery and performance of this Agreement by the Chinese Partner:

(i) are within its corporate power and business scope;

(ii) have been duly authorized by all necessary corporate action for proper authorization;

(iii) do not contravene any law or contractual restriction binding on or affecting the Chinese Partner.

c) *Enforceability*. Subject to the approval from the Original Approval Authority, this Agreement constitutes its legal, valid and binding obligations enforceable in accordance with its terms.

5. *Company's Representations and Warranties*. The Company represents and warrants as follows:

a) *Duly Organized*. It is a corporation duly incorporated, validly existing and in good standing under the laws of the People's Republic of China.

b) *Duly Executed*. The execution, delivery and performance of this Agreement by the Company:

(i) are within its corporate power and business scope;

(ii) have been duly authorized by all necessary corporate action for proper authorization;

(iii) do not contravene any law or contractual restriction binding on or affecting the Company.

c) *Enforceability*. Subject to the approval from the Original Approval Authority, this Agreement constitutes its legal, valid and binding obligations enforceable in accordance with its terms.

6. *Representations and Warranties of the Transferor, the Chinese Partner and the Company.*

a) *Representations and Warranties*. The Transferor, the Chinese Partner and the Company jointly and severally represent and warrant as follows:

(i) *Financial Statements*. The Transferor, the Chinese Partner and the Company have, to the best of their ability, caused the Company to submit to Transferee and its designated representative the Company's financial statements as of \_\_\_\_\_, \_\_\_\_\_ and all necessary documents and information (the "Financial Statements"). The Transferor, the Chinese Partner and the Company hereby confirm that the Financial Statements correctly reflect the Company's financial status as of \_\_\_\_\_, \_\_\_\_\_. The Financial Statements have been provided by the Company and confirmed with signatures by the Transferor and the Chinese Partner and are attached hereto as Attachment 1;

(ii) *No Unfavorable Changes*. The Company has undergone no unfavorable changes in its operation, effectiveness, finances and assets since \_\_\_\_\_, \_\_\_\_\_;

(iii) *No Liens*. There exists no mortgage, pledge, lien, other security interest, preferential right or trust right whatsoever over any property owned by the Company;

(iv) *No Violation of Law*. The Company, the Transferor and the Chinese Partner have not engaged or participated in any violation of China's laws and regulations such that the Company would be subject, now or in the future, to revocation of its business license, fines or other legal or administrative punishment that would materially adversely affect the operation of the Company;

(v) *No Legal Action*. The Company, the Transferor and the Chinese Partner are not involved in any Company-related legal action, arbitration, investigation or administrative procedure that is either ongoing or likely to start;

(vi) *No Other Debts*. The Financial Statements list all debts, overdue payments and unpaid taxes of the Company as of \_\_\_\_\_, \_\_\_\_\_. No debts, overdue payments or unpaid taxes other than those listed in the Financial Statements has resulted or will result from operational activities of the Company prior to \_\_\_\_\_, \_\_\_\_\_. The Company has not incurred any debts, overdue payments or unpaid taxes other than in the ordinary course of business since \_\_\_\_\_, \_\_\_\_\_, and the Company is required to keep its expenditures within the ordinary course of business until the date on which the equity transfer provided by Section 1 of this Agreement is completed.

(vii) *Duly Organized*. The Company is duly incorporated, validly existing and in good standing under the laws of the People's Republic of China. The Company possesses all required and necessary licenses and registrations to conduct its business as currently conducted;

(viii) *No Employee-Related Fees*. As of the effective date of this Agreement pursuant to Section 17 below, the Company has no outstanding payment obligations in respect of employee pension funds,

unemployment insurance, labor welfare funds, or any other employee-related fees and reserves.

b) *Liability for Breach.* The Transferor and the Chinese Partner shall jointly and severally bear all economic and legal liabilities resulting from any breach of the representations and warranties under Section 6(a) above and shall indemnify the Transferee against any losses that may result from such breach.

7. *Conditions Precedent to Effectuation of this Agreement.* The effectuation of this Agreement is subject to (a) all the representations and warranties of the Transferor and the Chinese Partner contained herein being true and accurate in all material respects as of the date made and as of the date of execution, and (b) the Transferee's receipt of evidence that the Original Approval Authority has approved this Agreement and the equity transfer hereunder;

8. *Post-transfer Proportions of Equity Holdings and Profit and Risk Sharing.*

a) *Equity Holdings.* Following completion of the equity transfer hereunder, the Transferee shall hold [x]% of the equity in the Company and the Chinese Partner shall hold [y]% of the equity in the Company. The Transferee and the Chinese Partner shall both facilitate the issuance by the Company of a Certificate of Capital Contribution to the Transferee and the Chinese Partner respectively based on the Capital Payment Verification Report pursuant to Section 1(e) above and the Capital Payment Verification Certificates issued by the Company based upon such Capital Payment Verification Report.

b) *Profit and Risk Sharing.* The Transferee and the Chinese Partner agree that from the day of issuance of the new business license for the Company following the equity transfers hereunder, the Transferee and the Chinese Partner shall apportion any profits of the Company such that the Transferee receives [x]% thereof and the Chinese Partner receives [y]% thereof. All related risks shall be apportioned likewise.

9. *Apportionment of Relevant Expenses.* All relevant expenses incurred in connection with the equity transfers hereunder (including but not limited to the accountants' fees and amendment fees for the industry and commerce registration) shall be borne by the Transferor; provided that all attorneys' fees and other consultants' fees shall be borne by the party incurring the same.

10. *New Contract of the Company.* The Transferee and the Chinese Partner shall through consultation sign a new or amended Contract to replace the current Contract. Such new or amended Contract shall be written in both Chinese and English and shall become effective following approval by the Original Approval Authority. Upon completion of the equity transfer, the Transferee shall have the right to rename the Company after consultation with the Chinese Partner.

11. *Confidentiality of the Transaction.* Any information received by any party from any other party in connection with the transfer contemplated by this Agreement shall be deemed to be confidential. The parties hereto agree that any such information shall be used solely for the purpose of evaluating and consummating the transfer contemplated hereby, and that no party shall publish through the news media or leak or disclose to any person who is not a party to this Agreement any such information.

12. *Agreement to Perform Necessary Acts.* Each party hereto agrees to do any and all things, take any and all the actions, perform any further acts and execute and deliver any further documents that are reasonably necessary to carry out and effect the provisions of this Agreement.

13. *Resolution of Disputes.*

a) *Arbitration.* All disputes in connection with this Agreement shall be settled by friendly consultations among the relevant parties. In the event no agreement can be reached within sixty days after one party proposes friendly consultations to settle such dispute, any relevant party may bring such dispute to the [Shenzhen Branch of the Chinese International Economic and Trade Arbitration Commission in Shenzhen, China] for arbitration under the then current rules of such commission.

b) *Language.* The language used in arbitration shall be Chinese and English. Any document used in arbitration may be written in Chinese and/or English.

c) *Expenses.* Any arbitration decision shall be final and all expenses for arbitration shall be borne by the losing party.

14. *Governing Laws.* This Agreement shall be governed by the laws of the People's Republic of China.

15. *Languages.* This Agreement is written in both Chinese and English. Both versions shall have equal legal validity.

16. *Entire Agreement.* This Agreement represents the entire agreement among the parties hereto regarding the equity transfers contemplated hereby and replaces and supersedes any other written or oral agreements among such parties on the same subject.

17. *Terms of Validity.* This Agreement shall be submitted for approval to the Original Approval Authority after due execution by authorized representatives from the Chinese Partner, the Transferor, the Transferee and the Company and shall become effective on the day the approval document is issued by the Original Approval Authority.

The agreement is signed on the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ in \_\_\_\_\_, China by the representatives of the parties.

THE TRANSFEROR

Representative: \_\_\_\_\_

Name:

Title:

THE CHINESE PARTNER

Representative: \_\_\_\_\_

Name:

Title:

THE COMPANY

Representative: \_\_\_\_\_

Name:

Title:

THE TRANSFEREE

Representative: \_\_\_\_\_

Name:

Title:

## **SAMPLE ARBITRATION CLAUSE**

1. *Arbitration.* Any and all dispute, disagreement, controversy, or claim arising out of or relating to this contract, or the breach, termination, or invalidity thereof, shall be settled through consultation between the parties. [In the event that the parties are unable to resolve their differences through consultation, the matter shall be submitted to the China International Economic and Trade Arbitration Commission (CIETAC) for mediation and conciliation.]<sup>1</sup> In the event that the parties are unable to settle this matter through consultation [or mediation] within a period of thirty (30) days, either party has a right to submit this matter for binding and final arbitration before CIETAC.

2. *Location of Proceedings.* The arbitration proceeding, including all hearings or meetings, shall be in [\_\_\_\_\_].

3. *Provisional Remedies.* Either party to this contract may request any judicial or other authority to order any provisional or conservatory measure, including attachment, seizure, garnishment, or sealing, prior to the institution of the arbitration proceeding, or during the proceeding, for the preservation of its rights and interests.

4. *Governing Arbitration Rules.* Any arbitration proceeding pursuant to this contract shall be conducted in accordance with the arbitration rules of CIETAC in effect on the date on which the proceeding is instituted. If the terms and provisions of this contract differ from CIETAC's arbitration rules, the language of this contract shall be controlling and supersede the arbitration rules.

5. *Selection of Arbitrators.* The arbitral tribunal shall consist of three (3) arbitrators. Each party shall have the right to choose one (1) arbitrator from CIETAC's approved list of arbitrators. The third arbitrator, who shall be the presiding arbitrator, shall be selected by mutual consent of the parties from CIETAC's list of arbitrators, or by CIETAC in the event that the parties are unable to agree. The presiding arbitrator shall

be a national of a country other than the People's Republic of China or [the United States of America].

6. *Governing Law.* This contract shall be governed by and construed in accordance with the laws of the People's Republic of China.<sup>2</sup>

7. *Governing Language.* This contract shall be executed in both [English] and Chinese, and [English] shall be the governing language. The mediation and arbitration proceedings shall be conducted in [English], and documents in the [English] language shall be accepted by the tribunal.

8. *Attorneys' Fees.* The prevailing party shall be entitled to an award of arbitration expenses including an award for reasonable attorneys' fees, expert witnesses fees, arbitrator fees, and all other reasonable costs and expenses incurred with respect to the arbitration proceeding.

### **SAMPLE LETTER OF CREDITWORTHINESS**

*(Bank Letterhead)*

Date\_\_\_\_\_

Ministry of Foreign Trade and

Economic Cooperation

Commission of Foreign Trade and

Economic Cooperation

Beijing Municipal People's Government

190 Chao Yang Men Nei Da Jie

Beijing, China

Dear Sir/Madam:

We confirm that \_\_\_\_\_ (the "Corporation"), has been a valued deposit and credit customer of this bank since 19/20\_\_\_\_. The Corporation maintains a combined average deposit balance in the low ten (10) figure range and XYZ Bank has total credit commitments in the low ten (10) figure range for the Corporation. To date, all deposit and credit facilities have been handled as agreed and the Corporation's management has maintained a satisfactory working relationship with XYZ Bank.

We consider the Corporation to be highly respectable and undoubted for their normal business engagements and that it is able to fulfill contractual obligations it enters into.

The above information is provided in strict confidence and without any responsibility on the part of the bank or its officers.

---

Vice President/Credit Executive

### **FOOTNOTES**

1. If the parties wish to forego mediation as a formal second step in the dispute resolution process, this sentence may be omitted. Under CIETAC rules, the subject of mediation will be broached by the arbitrators and the commission before and during an arbitration proceeding.

2. The parties have the right to choose the applicable law in contracts other than joint ventures and those involving the exploitation and exploration of natural resources.