

Guangdong Symphony Keruilai Air Coolers Co., Ltd.
Audited Financial Statements for Special Purpose
31 March 2016



Important Notice

The attached financial statements have been translated from the statutory financial statements prepared in accordance with the generally accepted accounting principles applicable to foreign investment enterprises established in the People's Republic of China. In the event of any differences in interpreting the financial statements, the Chinese version shall prevail.

Guangdong Symphony Keruilai Air Coolers Co., Ltd.

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Ernst & Young Hua Ming LLP
Level 16, Ernst & Young Tower
Oriental Plaza
No. 1 East Chang An Avenue
Dong Cheng District
Beijing, China 100738

安永华明会计师事务所（特殊普通合伙）
中国北京市东城区东长安街1号
东方广场安永大楼16层
邮政编码: 100738

Tel 电话: +86 10 5815 3000
Fax 传真: +86 10 8518 8298
ey.com

Auditors' Report for Special Purpose

Ernst & Young Hua Ming (2016) Zhuan Zi No. 60468648_A01

To the Board of Directors of Guangdong Symphony Keruilai Air Coolers Co., Ltd.

We have audited the accompanying financial statements of Guangdong Symphony Keruilai Air Coolers Co., Ltd. which comprise the balance sheet as at 31 March 2016, and the income statement for the three-month period ended 31 March 2016 and notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements for special purpose in accordance with note 2 "Basis of preparation" to the financial statements, and designing, implementing and maintaining internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Standards on Auditing. Those standards require that we comply with Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Auditors' Report for Special Purpose (continued)

Ernst & Young Hua Ming (2016) Zhuan Zi No. 60468648_A01

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of Guangdong Symphony Keruilai Air Coolers Co., Ltd. as at 31 March 2016 and its financial performance for the three-month period ended 31 March 2016 in accordance with note 2 "Basis of preparation" to the financial statements.

We remind the financial statements users to pay attention to note 2 "Basis of preparation" to the financial statements. The Report is only for Symphony Limited to prepare the consolidated financial statements, which cannot be provided to any other party for other usage. This paragraph shall not affect the audit opinion.

Ernst & Young Hua Ming LLP

Beijing, the People's Republic of China

22 April 2016

Guangdong Symphony Keruilai Air Coolers Co., Ltd.
BALANCE SHEET
31 March 2016
(Expressed in Renminbi Yuan)

	<u>Notes</u>	
ASSETS		
Current assets:		
Cash		8,665,908.57
Notes receivable	5	164,809.63
Accounts receivable	6	1,722,923.10
Other receivables	7	223,525.97
Advances to suppliers		40,000.00
Inventories	9	10,405,308.20
Prepaid expenses		<u>5,923.38</u>
Total current assets		<u>21,228,398.85</u>
Fixed assets:		
Cost	10	21,158,894.39
Less: Accumulated depreciation	10	<u>13,794,319.89</u>
Net book value	10	7,364,574.50
Less: Impairment provision	10	<u>1,603,001.22</u>
Fixed assets, net	10	<u>5,761,573.28</u>
Total fixed assets		<u>5,761,573.28</u>
Intangible assets and other assets:		
Intangible assets	11	2,900,731.04
Long-term prepayments	12	<u>796,424.64</u>
Total Intangible and other assets		<u>3,697,155.68</u>
TOTAL ASSETS		<u>30,687,127.81</u>

The notes on page 6 to 18 form an integral part of these financial statements.

Guangdong Symphony Keruilai Air Coolers Co., Ltd.
BALANCE SHEET (continued)
31 March 2016
(Expressed in Renminbi Yuan)

LIABILITIES AND OWNERS' EQUITY	<u>Notes</u>	
Current liabilities:		
Short-term loans	13	11,595,346.35
Accounts payable		9,035,361.15
Advances from customers		2,877,964.38
Payroll payable		3,282,508.88
Taxes payable	14	122,109.68
Other payables		500,332.37
Accrued expenses		<u>12,257,274.56</u>
Total current liabilities		<u>39,670,897.37</u>
Total liabilities		<u>39,670,897.37</u>
Owners' equity:		
Paid-in capital	15	85,000,000.00
Capital surplus	16	1,661,808.72
Accumulated losses		<u>(95,645,578.28)</u>
Total owners' equity		<u>(8,983,769.56)</u>
TOTAL LIABILITIES AND OWNERS' EQUITY		<u>30,687,127.81</u>

The notes on page 6 to 18 form an integral part of these financial statements.

Guangdong Symphony Keruilai Air Coolers Co., Ltd.
INCOME STATEMENT
For the Three-month Period Ended 31 March 2016
(Expressed in Renminbi Yuan)

	<u>Notes</u>	
Revenue from principal operations	17	3,786,545.63
Less: Cost of sales		5,257,828.45
Taxes and surcharges		<u>51,196.70</u>
Profit from principal operations		1,522,479.52
Less: Operating expenses		1,768,512.05
General and administrative expenses		3,203,950.95
Financial expenses	18	<u>136,979.59</u>
Operating loss		(6,631,922.11)
Add: Non-operating income		1,477.57
Less: Non-operating expenses		<u>96,693.00</u>
Total loss		(6,727,137.54)
Less: Income tax		<u>-</u>
Net loss		(6,727,137.54)
Add: Accumulated losses at beginning of period		(88,918,440.74)
Accumulated losses at end of the period		<u>(95,645,578.28)</u>

The notes on page 6 to 18 form an integral part of these financial statements.

Guangdong Symphony Keruilai Air Coolers Co., Ltd.
NOTES TO FINANCIAL STATEMENTS
31 March 2016
(Expressed in Renminbi Yuan)

1. Corporate information

Guangdong Symphony Keruilai Air Coolers Co., Ltd. ("the Company") (formerly known as "Dongguan Keruilai Air Treatment Equipment Co., Ltd." and "Munters Keruilai Air Treatment Equipment (Guangdong) Co., Ltd.") was established in Dongguan, the PRC, by Dongguan Ruirong Investment Co., Ltd. ("Ruirong") (formerly known as "Keda Electrical & Mechanical Equipment Co., Ltd.") and four individual shareholders as a limited liability company on 3 June 2011, with paid-in capital of RMB1,000,000. The registration number of the Company's business license is No. 441900001084923. The Company's office is located at No.81, Fenxi No. one road, Shangjia Community, Wanjiang District, Dongguan, Guangdong Province, the PRC.

On 23 August 2011, a capital injection was made by Ruirong and the four individual shareholders in forms of fixed assets and cash. The paid-in capital of the Company was RMB40,000,000 upon completion of the capital injection. On 30 November 2011, AB Carl Munters Limited acquired entire equity interests from the four individual shareholders and made a capital injection in form of cash amounting to RMB9,016,716. Upon completion of the above acquisition and capital injection, the Company became a foreign invested enterprise with an operation term of 50 years and changed its name to Munters Keruilai Air Treatment Equipment (Guangdong) Co., Ltd.. As at 31 December 2011, the registered capital of the Company was RMB85,000,000 with an operating term of 50 years. On 9 February 2012, AB Carl Munters Limited made another capital injection of USD5,709,185.59, which was equivalent to RMB35,983,284. Upon completion of the capital injection, the registered capital of the Company was RMB85,000,000, among which AB Carl Munters Limited and Ruirong holds 80% and 20%, respectively. The business license of the Company was updated on 5 November 2012. In 2013, Ruirong was merged with Dongguan Ruirong Industrial Investment Co., Ltd.. Therefore, Dongguan Ruirong Industrial Investment Co., Ltd. became the Chinese investor of the Company. In April 2015, AB Carl Munters Limited acquired the shares Dongguan Ruirong Industrial Investment Co., Ltd. held of the Company, with a consideration of RMB120,000,000, and become 100% holding company of the Company. On 13 August 2015, AB Carl Munters entered into a purchase and sales agreement with Symphony Limited, to transfer 100% of the equity interest of the Company to Symphony Limited. Management considered that the above acquisition was completed from 1 January 2016. On 5 January 2016, the Company changed its name to Guangdong Symphony Keruilai Air Coolers Co., Ltd.. The company changed the business license, after that the unified social credit code is 91441900576434143P.

1. Corporate information(continued)

The company commenced its operation from 25 August 2011. The principal activities are The production and sale of wet curtain, dehumidification equipment, evaporative humidifier, heater, fan, air duct and other equipment, ventilation hood, evaporative air cooler, evaporative cooling fan and evaporative cooling air and air handling equipment, agricultural (except for planting, animal husbandry and breeding industry, the state prohibited and restricted) environmental control equipment and control system (except for those involving restrictions, permits); products of similar products wholesale, import and export and commission agency (excluding auction) and provide relevant sales service and technical advisory services (no shop, do not involve the management of state-run trade goods involving quota and license management of goods. In accordance with the relevant provisions of the state); set up research institutions, research and development within the business scope of the company's new products, new technology etc.

2. Basis of preparation

The preparation of the financial statements for special purpose is for Symphony Limited to prepare the consolidated financial statements. Management considers it has no use to prepare the comparative figures, so no comparative figures are prepared.

The financial statements for special purpose are prepared in accordance with the accounting policies and estimates of the Accounting System for Business Enterprises and other related regulations.

3. Going-concern assumption

As at 31 March 2016, the accumulated losses of the Company are RMB95,645,578.28, net liabilities of the Company are RMB8,983,769.56, and the Company's current liabilities exceeded its current assets by RMB18,442,498.52. The financial statements have been prepared under the going concern basis as the investor, Symphony Limited, of the Company has undertaken to provide continuing financial support to enable the Company to meet its liabilities as and when they fall due. Therefore, the Company will have sufficient funds to meet its daily working capital requirements for the foreseeable future, and will not encounter going concern problems due to inadequate working capital.

4. Significant accounting policies and estimates

The financial statements for special purpose have been prepared based on the following accounting policies and estimates, which are in accordance with the Accounting System for Business Enterprises and other related regulations issued by the Ministry of Finance of the People's Republic of China ("PRC").

Accounting system

The Company adopts the Accounting System for Business Enterprises.

4. Significant accounting policies and estimates (continued)

Accounting year

The accounting year of the Company is from 1 January to 31 December.

Reporting currency

The Company's reporting and presentation currency is the Renminbi ("RMB"). Unless otherwise stated, the unit of the currency is Yuan.

Basis of accounting and measurement basis

The Company's accounts have been prepared on an accrual basis using the historical cost as the basis of measurement. Assets are recorded at cost when they are acquired. Subsequently, if the assets are impaired, impairment provisions are made in accordance with the Accounting System for Business Enterprises.

Foreign currency transactions

Transactions in currencies other than the reporting currency are translated into the reporting currency at the exchange rates quoted by the People's Bank of China ("the reference rates"), prevailing on the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are restated into the reporting currency using the rates of exchange ("the reference rates") ruling at the balance sheet date. The exchange gains or losses are dealt with in the income statement for the period.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value.

Bad debts

Accounts receivable meeting the following criteria are recognized as bad debts:

- The debtor is deceased or has been declared bankrupt and the debts remain uncollectible after considering the assets of the bankrupt or the estate of the deceased debtor;
- Debts that are long overdue where there is also evidence indicating that the debts are uncollectible or the possibility of collection is remote.

Specific and general provisions are made to account for bad debt losses on accounts receivable and other receivables. A specific provision refers to an amount that is provided based on management's assessment of the recoverability of an individual receivable.

Guangdong Symphony Keruilai Air Coolers Co., Ltd.
NOTES TO FINANCIAL STATEMENTS
31 March 2016
(Expressed in Renminbi Yuan)

4. Significant accounting policies and estimates (continued)

Bad debts (continued)

A general provision is set up on the remaining balances of receivables (including accounts receivables and other receivables) based on their ageing analysis, at the rates shown below:

<u>Accounts receivable ageing</u>	<u>Rates</u>
Within the credit period	0%
Overdue within 6 months	0%
Overdue over 6 months	100%

<u>Other receivables ageing</u>	<u>Rates</u>
Within 1 year	0%
1 to 2 years	50%
Over 2 years	100%

Inventories

Inventories, which include raw materials, work-in-progress and finished goods, are stated at cost when purchased. The cost of inventories issued is determined on the weighted average basis.

Inventories are valued at the lower of cost and net realizable value at the balance sheet date. The difference between the cost and the lower net realizable value is stated as a provision. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and estimated expenses and related taxes necessary to make the sale.

The provision for finished goods and raw materials are determined on an individual basis and a category basis, respectively.

Guangdong Symphony Keruilai Air Coolers Co., Ltd.
 NOTES TO FINANCIAL STATEMENTS
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 (Expressed in Renminbi Yuan)

4. Significant accounting policies and estimates (continued)

Fixed assets

Fixed assets are tangible assets with high unit costs held by the Company for use in production of goods, supply of services, rental or for administrative purposes, and are expected to be used for more than one year.

Fixed assets are recorded at cost when acquired. Depreciation is calculated using the straight-line method. The respective estimated useful lives and estimated residual values of fixed assets are as follows:

<u>Category</u>	<u>Estimated useful life</u>	<u>Estimated residual value</u>	<u>Annual depreciation rate</u>
Machinery	1-10 years	0%	10%-100%
Office Equipment	1-10 years	0%	10%-100%
Vehicles	5 years	0%	20%

At the end of the accounting period, fixed assets are carried at the lower of book value and recoverable amount. A provision for impairment of fixed assets is made for any difference between the book value and the lower recoverable amount. The recoverable amount of the fixed assets is the greater of the net selling price and the value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Gains or losses arising from the disposal, damage, obsolescence or physical counting of fixed assets are accounted for as non-operating expenses or income in the current period.

Intangible assets

Intangible assets are recognised when the interests generated by the assets will possibly be obtained by the Company and the cost can be reliably calculated. Intangible assets are recorded at actual cost on acquisition. The fair value of an intangible asset acquired in a business combination can be measured with sufficient reliability to be recognised separately.

The useful lives of intangible assets are assessed based on estimated economic benefits periods. Those intangible assets without foreseeable economic benefits periods are classified as intangible assets without certain useful lives.

The useful lives of the Company's intangible assets are as follows:

	<u>Useful life</u>
Patent right	10 years
Trademark	5 years
Software	5 years

4. Significant accounting policies and estimates (continued)

Long-term prepayments

Long-term prepayments are amortised over the periods from which the Company derives benefits, on a straight-line basis, as follows:

	<u>Beneficial period</u>
Improvement and modifications	5-10 years

Borrowing costs

Borrowing costs include interest, amortization of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings. The cost of borrowings designated for acquisition or construction of fixed assets are capitalized when the capital expenditures have been incurred, and the acquisition and construction activities that are necessary to bring the asset to its expected usable condition have commenced. The capitalized interest for the borrowing costs for each accounting period is computed based on the accumulated weighed average expenditure incurred for the acquisition or construction up to the end of the period and the related weighted average interest rate to the extent of actual borrowing costs incurred during the period. The capitalization of borrowing costs is suspended during the period in which the acquisition or construction of a fixed asset is abnormally interrupted for a period of more than three months. Borrowing costs during this period are treated as an expense until the acquisition or construction is resumed. The capitalization of borrowing costs ceases when the fixed asset being acquired or constructed is substantially ready for its intended use and borrowing costs incurred thereafter are recorded as finance costs in the period in which they are incurred. Other borrowing costs are charged to the income statement as finance costs as and when incurred.

Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards in relation to ownership of the goods have been transferred to the buyer, the Company maintains neither continuing managerial involvement nor effective control over the goods sold; and when it is probable that the economic benefits associated with the transaction will flow to the Company; and the relevant amounts of revenue and costs can be measured reliably.

Revenue from the sale of goods is determined according to the amount specified in the contract or agreement signed by the Company and the buyer, and excludes value added tax ("VAT"). Sales returns and allowances are recorded as a reduction of revenue in the period in which the returns and allowances occur. Sales returns after the balance sheet date that occur during the period between the balance sheet date and the date on which the financial statements are approved, are treated as an adjusting event after the balance sheet date. Cash discounts are recognized as financial expenses in the period in which they are incurred.

Guangdong Symphony Keruilai Air Coolers Co., Ltd.
 NOTES TO FINANCIAL STATEMENTS
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 (Expressed in Renminbi Yuan)

4. Significant accounting policies and estimates (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms.

Income tax

Income tax is accounted for using the tax payable method, whereby the income tax provision is calculated based on the applicable income tax rate and the accounting results for the period after adjusting for items which are non-assessable or disallowed in accordance with the relevant tax laws.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. If two or more parties are subject to control from the same party, they are also regarded as related parties.

5. Notes receivable

Bank acceptance notes 164,809.63

As at balance sheet date, there were no pledged or discounted notes in the Company.

6. Accounts receivable

Accounts receivable	2,851,547.33
Less: Bad debt provision	(1,128,624.23)
	<u>1,722,923.10</u>

The aging analysis is as below:

	Balance	%	Bad debt provision
Within 6 months	1,722,923.10	60.42	-
6 months - 1 year	613,752.16	21.52	613,752.16
1 - 2 years	<u>514,872.07</u>	<u>18.06</u>	<u>514,872.07</u>
	<u>2,851,547.33</u>	<u>100.00</u>	<u>1,128,624.23</u>

Guangdong Symphony Keruilai Air Coolers Co., Ltd.
NOTES TO FINANCIAL STATEMENTS
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7. Other receivables

Other receivables 223,525.97

The aging analysis is as below:

	Balance	%	Bad debt provision
Within 1 year	<u>223,525.97</u>	<u>100.00</u>	<u>-</u>

8. Bad debt provision

	Opening balance	Additions	Reversals	Closing balance
Accounts receivable	<u>517,116.64</u>	<u>611,507.59</u>	<u>-</u>	<u>1,128,624.23</u>

9. Inventories

Raw materials	5,271,577.33
Consigned processing materials	50,693.02
Semi-finished product	936,004.68
Work in process	450,714.22
Finished goods	<u>5,722,619.12</u>
	12,431,608.37
Less: Provisions	(<u>2,026,300.17</u>)
	<u>10,405,308.20</u>

Inventory provision:

	Opening balance	Additions	Reversals	Closing Balance
Raw materials	1,177,907.64	-	-	1,177,907.64
Semi-finished product	133,739.16	-	-	133,739.16
Finished goods	<u>714,653.37</u>	<u>-</u>	<u>-</u>	<u>714,653.37</u>
	<u>2,026,300.17</u>	<u>-</u>	<u>-</u>	<u>2,026,300.17</u>

Guangdong Symphony Keruilai Air Coolers Co., Ltd.
NOTES TO FINANCIAL STATEMENTS
31 March 2016
(Expressed in Renminbi Yuan)

10. Fixed assets

	Machinery	Office Equipment	Vehicles	Total
Cost:				
Opening balance	14,443,501.36	6,499,805.81	196,698.33	21,140,005.50
Additions	-	18,888.89	-	18,888.89
Closing balance	<u>14,443,501.36</u>	<u>6,518,694.70</u>	<u>196,698.33</u>	<u>21,158,894.39</u>
Accumulated depreciation:				
Opening balance	(7,907,415.61)	(5,192,082.81)	(184,389.47)	(13,283,887.89)
Charge for the year	(289,704.00)	(218,325.00)	(2,403.00)	(510,432.00)
Closing balance	<u>(8,197,119.61)</u>	<u>(5,410,407.81)</u>	<u>(186,792.47)</u>	<u>(13,794,319.89)</u>
Net book value:				
31 March 2016	<u>6,246,381.75</u>	<u>1,108,286.89</u>	<u>9,905.86</u>	<u>7,364,574.50</u>
31 December 2015	<u>6,536,085.75</u>	<u>1,307,723.00</u>	<u>12,308.86</u>	<u>7,856,117.61</u>
Impairment provision:				
Opening and closing balance	(1,603,001.22)	-	-	(1,603,001.22)
Net value:				
31 March 2016	<u>4,643,380.53</u>	<u>1,108,286.89</u>	<u>9,905.86</u>	<u>5,761,573.28</u>
31 December 2015	<u>4,933,084.53</u>	<u>1,307,723.00</u>	<u>12,308.86</u>	<u>6,253,116.39</u>
The carrying value includes fixed assets which are:				
Fully depreciated but still in use (gross)	-	549,987.33	-	549,987.33

11. Intangible assets

	Patent right	Trademark	Software	Total
Opening balance	2,648,744.80	266,679.70	477,760.34	3,393,184.84
Amortisation	(336,813.80)	(99,999.00)	(55,641.00)	(492,453.80)
Closing balance	<u>2,311,931.00</u>	<u>166,680.70</u>	<u>422,119.34</u>	<u>2,900,731.04</u>
Actual cost	<u>15,990,000.00</u>	<u>2,000,000.00</u>	<u>1,494,562.68</u>	<u>19,484,562.68</u>
	Opening balance	Additions	Reversals	Closing balance
Impairment provision Patents	<u>1,339,999.67</u>	-	-	<u>1,339,999.67</u>

Guangdong Symphony Keruilai Air Coolers Co., Ltd.
 NOTES TO FINANCIAL STATEMENTS
 31 March 2016
 (Expressed in Renminbi Yuan)

12. Long-term prepayments

	Decoration
Opening balance	969,500.64
Disposal	(96,693.00)
Amortisation	(76,383.00)
Closing balance	<u>796,424.64</u>

13. Short-term loans

Borrowings from related party	<u>11,595,346.35</u>
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Annual interest rates for borrowings from related parties are 5.6%.

14. Taxes payable

Value added tax	(66,873.88)
Corporate income tax	(95,154.68)
Urban maintenance and construction tax	230,595.63
Educational surtax	38,256.63
Embankment protection fee	14,415.68
Stamp Tax	<u>870.30</u>
	<u>122,109.68</u>

The major categories of taxes applicable to the Company and the respective tax rates are as follows:

- | | |
|--|--|
| (1) Value added tax ("VAT") | - In accordance with the relevant tax laws in the PRC, the major VAT rate for export sales is 0% and domestic sales is 17%. VAT is levied at 17% on the invoiced value of sales and is payable by the purchaser. The Company is required to remit the VAT it collects to the tax authority, but may deduct there from the VAT it has paid on eligible purchases. |
| (2) Corporate income tax | - In accordance with the relevant tax laws in the PRC, the Company is subject to a corporate income tax rate of 25% on its taxable income. |
| (3) Urban maintenance and construction tax | - In accordance with the relevant tax laws in the PRC, it is levied at 7% on the turnover taxes paid. |
| (4) Educational surtax | - In accordance with the relevant tax laws in the PRC, educational surtax and local educational surtax are levied at 3% and 2% on the Value added tax paid. |