

Beijing Local Taxation Bureau
No. 2 Inspection Bureau
Administrative Tax Penalty Notice

No. 2 Inspection Bureau Tax Penalty Notice (2011) No. 56

To Beijing Fake Cultural Development Co., Ltd.

Pursuant to Article 8 of the *Tax Collection and Administration Law of the People's Republic of China* and Article 31 of the *Administrative Penalty Law of the People's Republic of China*, the administrative penalty decisions regarding your tax offences will be made before July 7, 2011. The relevant matters are as follows:

I. Evidence and legal basis for the administrative tax penalty and the planned penalty decisions

(I) Offences

1. From January 2006 to December 2010, your company entered into seven (7) contracts for construction project surveying and design, and two (2) construction and installation contracts were unstamped. Based on Article 1, Article 7, and Item 1, Article 2 of the *Provisional Stamp Tax Regulations Concerning for the People's Republic of China*, these unstamped contracts constitute failure to pay the stamp tax.

2. From November 29, 2000 to December 31, 2010, your company did not report business tax, urban maintenance and construction tax, or corporate income tax on all of the company's operating income. Your company deliberately omitted certain kinds of income from the accounting records and submitted fraudulent tax returns, thus underpaying the aforementioned taxes. Based on Article 63 of the *Tax Collection and Administration Law of the People's Republic of China*, these actions constitute tax evasion.

3. From November 29, 2000 to December 31, 2010, fake tax invoices and tax invoices with inconsistent issuers and receivers were found among those your company submitted. In addition, your company failed to issue tax invoices to payers when certain design and engineering fees were received. Based on Item 3 and Item 4, Section 1, Article 36 of *Tax Invoice Regulations of the People's Republic of China* (Ministry of Finance Order (1993) No. 006) and Item 1, Article 48 and Item 2, Article 49 of *Rules for the Implementation of Tax Invoice Administration Measures of the People's Republic of China* (State Administration of Taxation (1993) No. 157), these actions constitute a breach of tax invoice issuance and receipt provisions.

(II) Planned penalty decisions

1. Based on Section 2, Article 64 of the *Tax Collection and Administration Law of the People's Republic of China* and Article 1 of the *State Administration of Taxation Notice on Issues Concerning Punishments for Violations of the Stamp Tax Regulations* (State Administration of Taxation (2004) No. 15), your company will be fined three (3) times the illegal gains (13,106.01 RMB) for the breach of stamp tax provisions.

2. Based on Article 63 of the *Tax Collection and Administration Law of the People's Republic of China*, your company did not report business tax, urban maintenance and construction tax, or corporate income tax on all operating income, and deliberately omitted certain kinds of income from accounting records and submitted fraudulent tax returns, thus underpaying 492,311.73 RMB in business tax, 32,467.93 RMB in urban maintenance and construction tax, and 4,344,497.64 RMB in corporate income tax. Your company will be fined 1.5 times the illegal gains (7,303,915.96 RMB) for tax evasion.

3. Based on Item 3 and Item 4, Section 1 and Section 2, Article 36 of *Tax Invoice Regulations of the People's Republic of China* (Ministry of Finance Order (1993) No. 006)

and Item 1, Article 48 and Item 2, Article 49 of *Rules for the Implementation of the Tax Invoice Administration Measures of the People's Republic of China* (State Administration of Taxation (1993) No. 157), your company will be fined 10,000 RMB for the failure to issue tax receipts according to regulations and 10,000 RMB for failing to obtain tax invoices according to regulations.

II. Your company has the right to make a statement and prepare a defense. Please come to the Bureau to make your statement and present your defense, or submit your statement and defense materials prior to the issuance of the penalty decisions; if your company fails to exercise these rights within the stipulated period, this is viewed as waiving these rights.

III. In the event that you are being fined 2,000 RMB or more or your company is being fined 10,000 RMB or more, you (your organization) have (has) the right to attend the hearing. Please submit the hearing request to the Bureau within three (3) days of receiving the notice; failing to submit the request within the stipulated period will be viewed as waiving the right to the hearing.

Beijing Local Taxation Bureau No. 2 Inspection Bureau

June 27, 2011

Beijing Local Taxation Bureau No. 2 Inspection Bureau (Seal)