

Legal Risks of the Account Receivable Management

The Company shall make evaluation of all the clients, evaluate the conditions for cooperation in a comprehensive way. It is necessary to hold seminars for the issues like: the receivables management, client credit evaluation; perfection of sales contract and risk prevention; the consistency of the client's quality requirements with the supply contract, and so on. Therefore, the following suggestions are for your reference:

1. Training and seminar

Hold a bidirectional seminar on the "Legal risks and prevention of account receivable management", the participants may include the Company's related managers and the sales, finance and other management staff. The Company may also put forward the topics for the seminar that need to be resolved immediately.

2. Reconciliation and collection

Implement the receivables management. First of all, carry out the cross-check, send the statement of accounts by express to the client who did not pay on time; the statement shall clearly indicate the matters as the returned goods and substitutions, offset payment, and rebate payment, etc.; send a call letter to the client who still failed to pay after the cross-check; secondly, carry out the cross-check at the client's place of business for the large sum of receivables, meanwhile observing the client's business operations; finally, after the cross-check, issue a warning letter and lawyer letter promptly to the client who had bad faith or cannot continue to be cooperated with, and resort to legal proceedings when necessary.

3. Relating guarantee and consignment control

Regarding the client who has ambiguous or poor credit but need continue to cooperate with, the Company may request its associated corporations to provide

guarantee, which includes material guarantee and entity warranty. The material guarantee mainly contains mortgage and impawn; and entity warranty mainly refers to pledge. The surety's responsibility is better a joint suretyship responsibility, rather than a common suretyship responsibility. Meanwhile, establish a system of consignment control. According to the actual arrears of the client, adopt the means of "more batches, less quantities" to effectively control the account receivable. Generally, it is appropriate to reduce 1~2 times of delivery per month, so as to urge the client to make the payment.

4. Client evaluation

Make assessment and evaluation of all the clients, grant different clients the different credit line and deadline, according to the client's credit status, management capacity, arrears situation, and contract performance, etc. and specify the approval authority for different credit line and deadline in the company management system. As the client who had a huge amount of arrears, but need continue to cooperate with, entrust the lawyer to investigate the client's basic conditions of the previous year, to find out the degree of risks for further business.

5. Regulate the sales procedure

Achieve a system of clear hierarchy, explicit responsibilities, and standard procedures, so that the concluding, performance and disputes settlement of the contract are all in effective control.

6. Standardize and revise the Company's format contract

Standardize the sales contract and all the documents related to performance of the contract, add the cross-check clause into the contract. Provisions related to the product quality requirement shall be conform to the quality provisions of the supply contract. Adopt different clauses of dispute settlement for the clients with different credit status, and ask the counselor to examine, so as to avoid and control the economic disputes and reduce losses. For the format contract of the VIP clients, the Company should also

try to make appropriate amends, in accordance with the Company's format sales contract.

7. Determining the jurisdiction court or arbitration organ

Confirm the category of the sales contract concluded with the clients, such as work contract, processing contract, or prescribe the place of performance in the contract. By the category or clauses of the contract, the Company may determine the jurisdiction court that is favored to the Company. Apart from doing business with the clients of good reputations, ensure to prescribe in the contract with large arrears transaction the court or arbitration organ where the company locates, to avoid bad debts or losses.

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The above opinions and suggestions are for your reference.

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