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PRIVATE AND CONFIDENTIAL

PREPARED FOR:

CELL AQUACULTURE LIMITED

Legal Due Diligence Report in relation to

HAIKOU PEACE BASE INDUSTRY DEVELOPMENT COMPANY LTD.

Dated: 18 June 2014



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LEGAL DUE DILIGENCE REPORT

Part One

1. INTRODUCTION

We are instructed by Cell Aquaculture Limited (“CAQ”) to conduct a legal due diligence investigation on Haikou Peace Base Industry Development Co. Ltd. (“HPB”), a limited liability company registered in People’s Republic of China (“PRC”) and to prepare this legal due diligence report (the “Report”) with respect to the proposed indirect acquisition by CAQ of 100% shares in HPB (“Acquisition”).

This Report is prepared and delivered to CAQ on the basis that the same cannot be relied on by any other person or for any purpose other than in connection with the Acquisition, and is not to be used, circulated, quoted or referred to for any other purpose. This Report is also strictly limited to the matters stated herein and is not to be read as extending by implication or otherwise to any other matter not specifically referred to herein.

2. SCOPE OF WORK

We have prepared this Report based on the documents as set out in the Document List provided by CAQ. The Document List is attached in **Appendix**.

For the purpose of the DD Review, we have conducted company search on the records of HPB filed with Haikou Administration for Industry and Commerce (“HAIC”) and land search on the records of the land use right owned by HPB filed with Chengmai Land Resources Bureau (“CLRB”) on 28 May 2014 (the “Search Date”).

3. SOURCES OF INFORMATION

The findings and analysis made and the conclusions reached in this report are based upon the following sources of information:

- (1) the documentation and explanation provided by, or on behalf of, HPB. Such documentation includes copies of the documents set out in the list of documents in the Appendix; and
- (2) results of the searches referred to in Section 2 above.

4. ASSUMPTIONS

For the purpose of this report, we have assumed that:

- (1) all factual statements made in the documents as set out in the Appendix are accurate and valid;
- (2) all signatures, seals and chops are genuine and that all documents provided to us as copies are complete and correct copies of the originals;
- (3) where a document is provided to us as a sample, all the documents to which such sample relates correspond to such sample examined by us;
- (4) the documentation and information provided by HPB to us as set out in the list of documents in the Appendix has included a complete set of the corporate records of HPB which is required to be kept by such company under the laws of PRC and/or by such company's memorandum and articles of association;
- (5) the documents and information filed with HAIC and CLRB contain all matters which ought to have been recorded therein as at the Search Dates and no change is required by any applicable laws or regulations of PRC to be made to those records since the Search Dates; and
- (6) our due diligence review is based on the documents provided to us by HPB up to the date of this report which do not constitute a comprehensive set of documents relating to all aspects of the businesses, activities and operations of HPB.

5. QUALIFICATIONS

This report is subject to the following qualifications:

- (1) In rendering this report, we have considered provisions of the prevailing laws and regulations of PRC and we do not express any opinion in respect of any matters herein in accordance with the laws of any jurisdiction other than PRC;
- (2) Our opinion as expressed in this report does not apply to any amendment or variation of any of the documents referred to Section 3(1) above which are not provided to or made known to us;
- (3) this report is prepared on the understanding and basis that we are not required to conduct any independent verification on the accuracy, correctness or completeness of any oral or written representations or statements made by HPB or its representatives or in the information or documents as set out in the Appendix unless such verification could be completed by searches on records or registers kept by relevant governmental authorities in PRC which have been made available for the inspection and access by the general public (the "**Public Records**").

This report is also prepared on the understanding and basis that we are not required to conduct investigation in relation to the following matters:

- (1) the valuation of the land, house, machinery and equipment and assets held by HPB;
- (2) HPB's financial and taxation issues.

Part Two

1. CORPORATE INFORMATION

(1) Establishment and Current Status

HPB was duly incorporated on 28 March 2013 in Haikou, Hainan Province, PRC in the form of Limited Liability Company (Equity Joint Venture). Peace Base Holdings Limited (“PBHL”), Hainan Baina Investment Co., Ltd. (“Baina”), VXL Equity Investment Management (Shanghai) Co., Ltd. (“VXL”), Actual Winner Limited (“AWL”) and Express Linker Ltd. (“ELL”) were the founding owners of HPB at the time of establishment of HPB. The shareholding structure of HPB at the time of establishment is as follows:

	Shareholder	Registered Capital (RMB)	Ratio
1.	PBHL	24,000,000.00	40%
2.	Baina	12,000,000.00	20%
3.	VXL	12,000,000.00	20%
4.	AWL	6,000,000.00	10%
5.	ELL	6,000,000.00	10%
	Total	60,000,000.00	100%

According to the company search result as at the Search Date, the registered address of HPB is Block 003, Haikou Integrated Free Trade Zone, No. 69 South First Ring Road, Laocheng Economic Development Zone, Chengmai County, Hainan Province; the legal representative is Zhang Baojun; the total investment amount is RMB120,000,000; the registered capital and paid-up capital are both RMB60,000,000; PBHL, AWL and ELL are the registered owners of HPB; the business scope is “Investment management; investment consultancy; economic and trade consultancy; cargo packaging, agency for domestic and international freightage; public bonded warehouse and other warehousing services (excluding hazardous chemicals); display of bonded goods; import and export of goods; agency for import and export; processing

and sale of diamond and gold jewelry, golf equipment, skateboard, watches and other luxury goods, household electrical appliances, furniture, electronic goods, knitted textile; organization of cultural and art communications (the above business to be carried out within the territory of Haikou Integrated Free Trade Zone; business that requires administrative permit shall be carried out after a permit is granted; special business, business restricted or prohibited by the State is not included) ”; the operation term of HPB is commencing on 28 March 2013 and is ending on 28 March 2043.

The shareholding structure as at the Search Date is as follows:-

	Shareholder	Paid Up Capital (RMB)	Ratio
1	PBHL	24,000,000.00	40%
2	AWL	18,000,000.00	30%
3	ELL	18,000,000.00	30%
	Total	60,000,000.00	100%

Note: As HPB will lease some of its property to third parties as processing factory and exhibition center, we think it is necessary to add “leasing of property” in the business scope of HPB.

(2) Capital Contribution

The registered capital of HPB is RMB60,000,000 which has been fully paid up by its shareholders as indicated in the Capital Verification Reports prepared by China Certified Accountants.

(3) Certificates and Approvals

HPB has obtained the following certificates and approvals:

	Certificates	Issuing Authority	Certificate No.	Issuing Date	Validity Period
1.	Certificate of Approval	People's Government of Hainan Province	Shang Waizi Qiong K Bao Waizi Zi [2013] No. 0001	25 November 2013	N/A

2.	Business License	HAIC	460100400005043	25 November 2013	28 March 2043
3.	Enterprise Legal Entity Code Certificate	Hainan Provincial Bureau of Quality and Technology Supervision	06231909-2	29 April 2014	27 March 2017
4.	Tax Registration Certificate	Haikou National Tax Bureau and Haikou Local Tax Bureau	Qiong Di Shui Haikou Zi 460100062319092	28 November 2013	N/A
5.	Customs Registration Certificate	Haikou Integrated Free Trade Zone Customs	4601640001	6 March 2014	6 March 2017
6.	SAFE Registration Certificate	State Administration of Foreign Exchange Hainan Branch	00013066	N/A	N/A
7.	Bank Account Opening Permit	People's Bank of China Haikou Branch	J6410016758901	2 July 2013	N/A
8.	Inspection Registration Certificate	Hainan Entry-Exit Inspection and Quarantine Bureau	4600601549	18 March 2014	N/A
9.	Foreign Trade Operator Registration Form	Bureau of Commerce of Haikou	01654685	25 February 2014	N/A

The above-mentioned certificates and approvals are issued by competent governmental organizations respectively and are valid and up to date.

Save for the environmental protection assessment, HPB has obtained all licenses and permits for its business operations. The environmental issues of HPB are set out in Section 4 hereunder.

(4) Legal Representative and Directors

According to the Articles of Association of HPB signed on 19 November 2013, the board of directors comprises of 5 directors, 3 of which are to be appointed by PBHL, and each of AWL and ELL shall have the right to appoint 1 director. The chairman of the board is to be appointed by PBHL,

and the vice-chairman is to be appointed by AWL. The board of directors is the highest authority of HPB.

The chairman of the board is also the legal representative of HPB.

(5) Changes of HPB

HPB has made 2 changes since its establishment:

- a) On 13 September 2013, VXL and ELL entered into a share transfer agreement according to which VXL transferred all its 20% equity in HPB to ELL at the consideration of RMB12,000,000; on the same date Baina and AWL entered into a share transfer agreement according to which VXL transferred all its 20% equity in HPB to ELL at the consideration of RMB12,000,000.

On 13 September 2013, a shareholders' resolution was passed by the shareholders of HPB approving the aforementioned share transfers, and the change of operation term of HPB from long term to 30 years.

On 17 September 2013, Haikou Integrated Free Trade Zone Administration Committee approved the share transfers.

On 23 September 2013, Haikou Integrated Free Trade Zone Administration Committee approved the change of operation term from long term to 30 years.

On 24 September 2013, a new Certificate of Approval and Business License were issued to HPB.

- b) On 19 September 2013, a board resolution was passed approving the change of business scope to "Investment management; investment consultancy; economic and trade consultancy; cargo packaging, agency for domestic and international freightage; public bonded warehouse and other warehousing services (excluding hazardous chemicals); display of bonded goods; import and export of goods; agency for import and export; processing

and sale of diamond and gold jewelry, golf equipment, skateboard, watches and other luxury goods, household electrical appliances, furniture, electronic goods, knitted textile; organization of cultural and art communications (the above business to be carried out within the territory of Haikou Integrated Free Trade Zone; business that requires administrative permit shall be carried out after a permit is granted; special business, business restricted or prohibited by the State is not included) ”.

On 22 November 2013, Haikou Integrated Free Trade Zone Administration Committee approved the change of business scope.

On 25 November 2013, a new Certificate of Approval and Business License were issued to HPB.

The changes made by HPB were duly registered with HAIC and no other approvals are required by the relevant PRC laws and regulations for the above changes to validly take effect. Therefore they are legal and valid changes and are in compliance with all relevant PRC laws and regulations.

2. Taxation

HPB needs to pay Enterprise Income Tax at 25%, Value-Added Tax at 17%.

As confirmed by HPB, it has not paid any tax since the date of incorporation because HPB is still in the process of construction and has not carried out any business so far.

3. REAL PROPERTY

(1) Land

HPB has purchased a parcel of land in Haikou Integrated Free Trade Zone from the Administrative Committee of Haikou Integrated Free Trade Zone (“the Transferor”) for an area of 44020.60 sqm for the consideration of RMB13,600,000. A Land Use Right Certificate was granted to HPB on 5 December 2013. Details of the land use right are set out below:

Land Use Right	Address	Use Right	Usage	Expiry Date	Size (sqm)
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Certificate No.		Type			
Laocheng Guo Yong (2013) No. 1488	Laocheng Economic Development Zone South First Ring	Sold	Industrial, mining and warehouse	22 September 2060	44020.60

As legal owner of the above land use right, HPB has the right to possess the land, to use the land as per the approved usage, to obtain economic interest derived from the land, and to dispose of the land use right in due course.

Note: as advised by HPB, when the land was sold to HPB, the Transferor did not go through certain procedural requirements in relation to the sale of land use right, such as the sale must be made by way of bidding, auction and listing instead of by negotiation; the land use right should be valued and such valuation result should be approved by superior governmental department in charge of the administration of state-owned assets. It is also noted that the Transferor is not only the former owner of the said land, but is also the administrative authority of the Haikou Integrated Free Trade Zone as authorized by Haikou Municipal Government exercising governmental functions within the Haikou Integrated Free Trade Zone. Based on the above factors, we are of the view that: (a) there were procedural defects in the transfer of land; (b) it was not HPB's fault that certain procedural requirements were not met; (c) should the transaction be deemed unfair in the future because of the procedural defects, certain people of the Transferor who effected the transaction would be held responsible and would be punished accordingly; (d) the chances that HPB will be punished are low; and (e) the purchase of land by HPB will not be invalidated unless HPB was involved in malicious conspiracy with the Transferor in the land transfer transaction.

(2) House

As advised by HPB, it does not own any houses as at the Search Date.

(3) Construction in Process

HPB plans to construct one exhibition center, three factory buildings, four warehouses and one office building on the parcel of land owned by HPB.

For the above mentioned construction, HPB has obtained Construction Land Planning Permit on 5 November 2013 and Construction Project Planning Permit on 26 March 2014 from Planning Construction and Land Resources Bureau of Haikou Integrated Free Trade Zone. However, HPB has not obtained the Construction Permit which is required to be obtained before the commencement of construction for all construction projects. Instead, HPB has obtained an approval from Haikou Integrated Free Trade Zone Administrative Committee on 14 October 2013 which granted the approval for the construction.

We visited Planning Construction and Land Resources Bureau of Haikou Integrated Free Trade Zone on the Search Date and a deputy director (Mr. Wu) confirmed to us that the two Permits issued by it to HPB were valid.

Note: according to PRC laws and regulations, a Construction Permit is always required before a construction project can be commenced. In addition, it is also one of the requisite documents for the issuance of title certificate to the property constructed. As a result, HPB might be ordered by relevant governmental department to suspend the construction, and might be imposed a fine in the range from RMB5,000 to RMB10,000; and HPB may not be able to obtain title certificate to the buildings. As advised by HPB during the site visit, they are preparing for the application of Construction Permit. If HPB obtains the Construction Permit, it can still apply for the issuance of title certificates to the buildings.

4 ENVIRONMENT

According to PRC laws and regulations, HPB needs to prepare an Environmental Protection Assessment Report and submit it to the local Environmental Protection Bureau for approval; after grant of the approval, HPB could start the construction of buildings and facilities on the parcel of land.

As advised by HPB, it has not prepared the Environmental Protection Assessment Report and is in the process of communication with Environmental Protection Bureau.

Note: the consequences from construction without obtaining the approval from Environmental Protection Bureau include: (1) HPB may be ordered to complete the preparation of Environmental Protection Assessment

Report and obtain approval within a specified period of time; (2) HPB may be ordered to suspend the construction; and (3) HPB may be imposed a fine under RMB100,000.

5. EMPLOYEE MATTERS

HPB has employed more than 10 staff as at the Search Date. We are advised by HPB that it has entered into employment contracts with most of its employees except for those who were newly recruited. HPB adopted a standard form contract prepared by the government, the major terms and conditions of which are as follows:

- a. Term of contract and Probation Period;
- b. Job post and job duties;
- c. Salary;
- d. Social insurance and welfare;
- e. Labor protection;
- f. Rescind or terminate the contract and the compensation;
- g. Dispute resolutions.

We have reviewed sample of employment contract and found that they are in accordance with PRC laws and regulations and no provision thereof is against the laws and regulations of PRC.

Note: HPB should also enter into labor contracts with those newly recruited employees no matter how short time they have entered the company. Failing to comply with it may incur punishment from the relevant governmental department.

HPB has the legal obligation to pay social security and housing fund for the employees. We are advised by HPB that it has paid social security for 6 employees only. As the contribution of social security and housing fund are mandatory in China, HPB has the obligation to make social security and housing fund contribution to all its staffs.

Note: according to PRC laws and regulations, HPB is required to pay social security and housing fund for all its employees. HPB might be

sued by its employees for the unpaid social security and housing fund. Furthermore, the relevant government departments might punish HPB for not complying with the regulations by imposing a fine upon HPB for an amount under RMB5,000.

6 LOANS, MORTGAGES AND GUARANTEES

As advised by HPB, it does not have any loans, or mortgages, or guarantees since the establishment of the company.

7. MATERIAL CONTRACTS

(1) Leasing Contracts

a) Leasing of Exhibition Center

HPB entered into a leasing agreement with Hang Mei Enterprises Company Limited ("Hang Mei") for the leasing of Exhibition Center in October 2013. According to the agreement, HPB shall lease a floor area of 10,000 sqm in the Exhibition Center to Hang Mei for the use of exhibition of diamonds and jewelry; the Exhibition Center is still in construction and will be provided to Hang Mei in 5 days after the construction is completed; the lease period will be 30 years; the monthly rent for the first two years will be calculated as certain percentage of the business turnover of Hang Mei, and that for the subsequent years will be decided by both parties in accordance with market situations; the monthly rent is payable before the 5th day of the next month; Hang Mei will pay a deposit of RMB500,000 to HPB at the time of this agreement; there will be no property management fees for the first two years; sub-leasing for the whole Exhibition Center or for more than 20% of the total floor area to third party is not allowed unless prior written consent is granted by HPB; the liquidated damage will be 0.1% of yearly rent for each day; any party that wishes to terminate this agreement will inform the other party 3 months in advance, and will pay the other party RMB500,000 as damage.

Note: according to Contract Law of the PRC, the longest leasing period will be 20 years and the period beyond 20 years will be deemed as not existing. Besides, HPB will have to submit the agreement to local government department for registration after the property certificate of the Exhibition Center is obtained; otherwise HPB might be punished as

not fully in compliance with relevant property leasing regulations.

b) Leasing of Factory building A

HPB entered into a leasing agreement with Hang Mei in October 2013 for the leasing of Factory building A. According to the agreement, HPB shall lease Factory building A with a floor area of 6,300 sqm to Hang Mei for the use of manufacture and processing of diamonds and jewelry; the building is still in construction and will be provided to Hang Mei in 5 days after the construction is completed; the leasing period will be 30 years; the monthly rent for the first 20 years have been agreed by both parties, and that of the subsequent years will be decided by both parties in accordance with market situations; Hang Mei will pay a deposit equals to two months' rent to HPB at the time of this agreement; monthly rent and management fee is payable before the 5th day of the next month; the first ten months of the leasing period is rent free; sub-leasing is not allowed unless prior written consent is granted by HPB; the liquidated damage will be 0.1% of yearly rent for each day; any party that wishes to terminate this agreement will inform the other party 3 months in advance, and will pay the other party a compensation that equals to two months' rent.

Note: according to Contract Law of the PRC, the longest leasing period will be 20 years and the period beyond 20 years will be deemed as not existing. Besides, HPB will have to submit the agreement to local government department for registration after the property certificate of Factory building A is obtained; otherwise HPB might be punished as not fully in compliance with relevant property leasing regulations.

c) Leasing of Factory building C

HPB entered into a leasing agreement with Double East Limited ("Double East") on 18 January 2014 for the leasing of Factory building C. According to the agreement, HPB shall lease Factory building C with a floor area of 6,300 sqm to Double East for the use of manufacture and processing of diamonds and jewelry; the building is still in construction and will be provided to Double East in 5 days after the construction is completed; the leasing period will be 30 years; the monthly rent for the first 20 years have been agreed by both parties, and that of the subsequent years will be decided by both parties in accordance with market situations; Double East will pay a deposit equals to two months' rent to HPB at the time of this agreement; monthly rent and management fee is payable before the 5th day of the next month; the first ten months of the leasing period is rent free; sub-leasing is not allowed unless prior written consent is granted by HPB; the liquidated damage will be 0.1% of yearly rent for each day; any party that wishes to terminate this agreement

will inform the other party 3 months in advance, and will pay the other party a compensation that equals to two months' rent.

Note: according to Contract Law of the PRC, the longest leasing period will be 20 years and the period beyond 20 years will be deemed as not existing. Besides, HPB will have to submit the agreement to local government department for registration after the property certificate of Factory building C is obtained; otherwise HPB might be punished as not fully in compliance with relevant property leasing regulations.

d) Leasing of Warehouse

HPB entered into a leasing agreement with China Logistics Infrastructure (Holdings) Co., Ltd. ("CLIH") on 24 October 2013 for the leasing of Warehouse. According to the agreement, HPB shall lease a warehouse with floor area not less than 20,000 sqm to CLIH for the use of storage of goods; the leasing period will be 10 years commencing on 1 March 2015 and ending on 28 February 2025; the first two months of the leasing period will be rent free; the monthly rent and management fee for the first two years have been agreed by both parties, and that for the subsequent years will be decided by both parties in accordance with market situations; CLIH shall pay a deposit equals to three months' rent to HPB, and part of the deposit being RMB400,000 shall be paid at the time of this agreement and the remaining part will be paid before 20 February 2015; the monthly rent and management fee are payable before the 5th day of next month; the liquidated damage for the late payment is 0.1% of the unpaid rent for each day; if CLIH wishes to terminate this agreement, it shall inform HPB three months in advance and shall pay HPB a compensation equals to two months' rent.

Note: as the construction is still not completed, there is a risk that HPB may not be able to provide the warehouse to CLIH on 1 March 2015. Besides, HPB will have to submit the agreement to local government department for registration after the property certificate of the Warehouse is obtained; otherwise HPB might be punished as not fully in compliance with relevant property leasing regulations.

(2) Construction Contracts

HPB has entered into a series of contracts with different parties for the survey, design, construction and supervision of the construction project. A list of construction related contracts is set out as below:

No.	Party to the Contract	Content	Contractual Amount (RMB)	Date of Contract
1	Henan Xingjian Construction Management Co., Ltd.	To act as agent of HPB in the invitation to bid for supervision of construction project	40,000	[] 2013
2	Hainan Pengqiong Environmental Engineering Co., Ltd.	Termite prevention for the construction project of HPB	130,000	19 May [2013]
3	Hainan Non-Ferrous Engineering Surveying and Designing Institute	Advance bore surveying for the four warehouses of HPB	300,000	20 December 2013
4	Shenzhen Jianxing Project Management Consultancy Co., Ltd.	Supervision of construction project of HPB	1,600,000	27 December 2013
5	Haikou City Planning Research Institute	Geotechnical engineering detailed exploitation of construction project of HPB	230,000	26 August 2013
6	Haikou City Planning Research Institute	Engineering design of construction project of HPB	2,768,900	16 December 2013
7	Haikou Zheng Long Xing Design Consultancy Co., Ltd.	Consultancy services in relation to the construction project of HPB	941,600	16 December 2013
8	Hainan Zhongxi Renfang Protection Equipment Co., Ltd.	Sale and installation of protection equipment to HPB	610,000	20 May 2014

9	Northcroft (Beijing) Construction Services Ltd.	Construction cost consultancy services in relation to the construction project of HPB	800,000	14 May 2014
10	Guangzhou Housing Construction Development Company Limited	Construction of Exhibition Center, office building, three factory buildings and four warehouses	118,880,648.25	26 December 2013

The contracts are governed by and interpreted in accordance with the PRC laws. Save for the above notes, we have not found any other unusual terms or any other terms that may increase extra risk or liability to HPB in those contracts. The contracts are valid and thus enforceable according to the PRC laws.

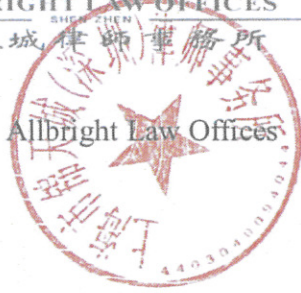
8. LITIGATIONS

As advised by HPB, (i) there is no judicial or administrative actions or investigations pending or threatened against it; (ii) it has not participated in and is not participating in any litigation or claim or arbitration; (iii) there is no cause for any litigation or claim against it; and (iv) it is not subject to any insolvency or winding up order and no insolvency petition has been made against it.

9. INTELLECTUAL PROPERTY

As advised by HPB, it does not own any kind of intellectual property in China.

Conclusion: On the basis of what we have obtained from identifiable sources, we are of the view that HPB is duly incorporated and legally exists as a limited liability company in China. There is no legal obstacle for the Acquisition of 100% shareholdings in HPB.



Date: 18 June 2014

Appendix – Document List