THE PRC LAWS, REGULATIONS AND POLICIES

This section sets out summaries of the principal China laws, regulations and policies relevant to the Company's current ordinary course of business operations in China.

POLICIES ON SENSOR INDUSTRY

In November 2016, the State Council issued the Notice of the State Council on the "13th Five-Year Plan" for the Development of National Strategic Emerging Industries (《國務院關於印發「十三五」國家戰略性新興產業發展規劃的通知》), aiming to enhance the supply capacity of core foundational hardware. The plan focuses on improving the design capabilities of key chips and developing chips for new applications. It accelerates the industrialization of 16/14-nanometer process technology and the construction of memory production lines while upgrading the technological level and industry concentration of packaging and testing. Additionally, it emphasizes strategic deployment in post-Moore's Law chip-related fields. The plan also seeks breakthroughs and large-scale adoption of domestically developed technologies, including active matrix organic light emitting diode (AMOLED), ultra high definition (4K/8K) quantum dot liquid crystal displays, and flexible displays. Furthermore, it promotes R&D and industrialization of key technologies in smart sensors, power electronics, printed electronics, semiconductor lighting, and inertial navigation, while improving the supply guarantee capability of new surface mount components, optical communication devices, and specialized electronic materials.

In March 2021, the National People's Congress (the "**NPC**") approved the Outline of the 14th Five-Year Plan (2021–2025) for National Economic and Social Development and Long-Range Objectives for 2035 (《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》), proposing to focus on key areas, including high-end chips, operating systems, core AI algorithms, and sensors, while accelerating R&D breakthroughs and iterative applications in fundamental theories, algorithms, and equipment materials and strengthening integrated research and development of general-purpose processors, cloud computing systems, and core software technologies.

In December 2021, the State Council issued the Notice of the State Council on the "14th Five-Year Plan" for the Development of Digital Economy (《國務院關於印發「十四五」數字經濟發展規劃的通知》), pointing out that during the 14th Five-Year Plan period, key technological innovation capabilities should be strengthened, strategic forward-looking fields such as sensors, quantum information, network communication, integrated circuits, key software, big data, artificial intelligence, blockchain and new materials should be targeted. It called for leveraging China's institutional advantages under the socialist system, the strength of the new nationwide system, and the benefits of a super-large market to strengthen fundamental R&D capabilities in digital technologies. The plan also highlighted making up for the shortcomings of key technologies, optimize and innovate the organizational methods such as "Open bidding for selecting the best candidates", focus on breaking through key core technologies in the fields of high-end chips, operating systems, industrial software, core algorithms and frameworks, and strengthen the integrated R&D of general-purpose processors, cloud computing systems and software key technologies. In addition, the competitiveness of key links in the industrial chain should be improved and the supply chain systems of key industries such as 5G, integrated circuits, new energy vehicles, artificial intelligence, and industrial Internet should be improved.

In 2022, the Ministry of Industry and Information Technology and five other departments issued the Guiding Opinions on Promoting the Development of the Energy Electronics Industry (《關於推動能源電子產業發展的指導意見》), encouraging the development and application of key information technology products for the new energy sector. This mainly includes power electronics, flexible electronics, sensing and IoT, smart energy information systems, as well as adaptive technologies and products such as advanced computing, industrial software, transmission and communication, and industrial robotics tailored to new energy needs. The document calls for research into miniaturized, high-performance, high-efficiency, and highly reliable power semiconductors, sensor devices, optoelectronic devices, and other basic electronic components, as well as specialized equipment and advanced processes. It also supports the construction of new energy supply and consumption systems, such as ultra-high voltage.

In June 2023, the Ministry of Industry and Information Technology and four other departments issued the Implementation Opinions on Enhancing Reliability in Manufacturing (《製造業可靠性提升實施意見》). Emphasis is placed on implementing a reliability "foundation-building" project for sensors, highly adaptable sensor modules, and automotive-grade high-precision sensors in the machinery, electronics, and automotive industries, strengthening the assessment and evaluation of reliability indicators, promoting reliability growth, and creating a good environment.

In December 2023, the National Development and Reform Commission issued the Catalogue for Guiding Industry Restructuring (2024 Version) (《產業結構調整指導目錄(2024年本)》), which includes sensitive components and sensors in the encouraged category.

LAWS AND REGULATIONS ON FOREIGN INVESTMENT

The establishment, operation, and governance of Chinese corporate entities are regulated by the Company Law of the People's Republic of China ("**PRC Company Law**"), which was promulgated by the Standing Committee of the National People's Congress ("**NPC Standing Committee**") on December 29, 1993, latest amended on December 29, 2023, and took effect on July 1, 2024. Both limited liability companies and joint stock limited companies incorporated in China are subject to the PRC Company Law. Unless otherwise stipulated by foreign investment laws, foreign-invested enterprises are also governed by the PRC Company Law.

The Foreign Investment Law of the PRC, which was promulgated by the NPC on March 15, 2019 and implemented on January 1, 2020, establishes the management system for pre-access national treatment and negative list for foreign investment in the PRC. Pre-access national treatment means that foreign investors and their investments shall be treated no less favorably than domestic investors and their investments at the stage of investment access; negative list refers to the special administrative measures for access of foreign investment in specific fields as prescribed by the PRC. The PRC gives national treatment to foreign investment outside the negative list. In addition, the Regulation for Implementing the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the "**Implementation Regulations**"), which was promulgated by the NPC on December 26, 2019 and came into effect on January 1, 2020, further stipulates that the PRC shall, according to the needs of national economic and social development, formulate a catalogue of encouraged foreign-invested industries, and specify the specific industries, fields and regions in which foreign investors are encouraged and guided to invest.

The National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) jointly revised and issued the Special Administrative Measures (Negative List) for Foreign Investment Access (2024 version) (《外商投資准入特別管理措施(負面清單) (2024年版)》) (the "**Negative List**") on September 6, 2024, which came into effect on November 1, 2024, to replace the previous negative list. Domestic enterprises engaged in business activities within the prohibited sectors on the Negative List that seek to issue and list securities overseas must obtain prior approval from the relevant state authorities. For such enterprises, overseas investors shall not participate in corporate management, and their shareholding ratio shall be implemented with reference to the relevant regulations governing overseas investors' securities investments in the mainland market.

Pursuant to the Measures for the Security Review of Foreign Investment (《外商投資安全審查辦法》) jointly promulgated by the NDRC and the MOFCOM on December 19, 2020 and effective from January 18, 2021, foreign investments that affect or may affect national security are subject to security review in accordance with the said Measures. Foreign investors or relevant domestic affiliate shall proactively file an application with the working mechanism office before they conduct any investment into any of the following fields: (1) investment in the military industry or military-related industry, and investment in areas in proximity of defense facilities or military establishment; and (2) investment in any important agricultural product, important energy and resources, critical equipment manufacturing, important infrastructure, important transportation services, important cultural products and services, important information technologies and internet products and services, important financial services, critical technologies and other important fields which concern the national security where actual control over the invested enterprise is obtained.

REGULATIONS ON OVERSEAS INVESTMENT

Pursuant to the Administrative Measures for Overseas Investments (《境外投資管理辦法》) which was promulgated by the MOFCOM on September 6, 2014 and came into effect on October 6, 2014, the MOFCOM and provincial competent commerce departments shall conduct filing or approval management depending on different circumstances of overseas investments of enterprises. Overseas investments involving sensitive country or region, sensitive industry shall be subject to approval management, overseas investments under other circumstances shall be subject to filing management.

Pursuant to the Administrative Measures for Outbound Investment by Enterprises (《企業境外投資管理辦法》) which was promulgated by the NDRC on December 26, 2017 and came into effect on March 1, 2018, an enterprise located within the territory of the PRC (the "**Investor**") making an outbound investment shall go through such formalities as the approval and filing for the outbound investment project (the "**Project(s)**"), the reporting of relevant information, and the cooperation in the supervision and inspection over the outbound investment. Sensitive Projects carried out by Investors directly or through overseas enterprises controlled by them shall be subject to approval; non-sensitive Projects directly carried out by Investors, namely, the non-sensitive Projects involving Investors' direct investment of assets and equities or the provision of financing or guarantees shall be subject to filing. The aforementioned "sensitive project" means a project involving a sensitive country or region or a sensitive industry. The NDRC promulgated the Catalogue of Sensitive Industries for Outbound Investment (Edition 2018) (《境外投資敏感行業目錄(2018年版)》), effective on March 1, 2018 to list the sensitive industries for overseas investment in detail.

Pursuant to the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) which was promulgated by the SAFE on February 13, 2015 and came into effect on June 1, 2015, abolishing the verification and approval of foreign exchange registration of overseas direct investment. The banks shall directly examine and handle foreign exchange registration of overseas direct investment. SAFE and its branches shall conduct indirect regulation of foreign exchange registration of overseas direct investment via banks.

LAWS AND REGULATIONS ON INTELLECTUAL PROPERTY

Patent

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) (the "**Patent Law**") promulgated by the SCNPC on March 12, 1984 and latest amended on October 17, 2020 and came into effect on June 1, 2021, and the Implementing Rules of the Patent Law of the PRC (《中華人民共和國專利法實施細則》) promulgated by the State Council on June 15, 2001 and latest amended on December

11, 2023 and came into effect on January 20, 2024, there are three types of patents, namely "invention," "utility model" and "design". The duration of patent rights for an invention shall be 20 years, the duration of patent rights for a utility model shall be 10 years and the duration of patent rights for a design shall be 15 years, commencing from the filing date. Following the grant of patent rights for an invention or a utility model, unless otherwise stipulated in this Law, no organization or individual shall implement the patent without licensing from the patentee. Following the grant of design patent rights, no organization or individual shall implement the patent without licensing from the patentee, i.e. shall not manufacture, offer to sell, sell or import the design patented products for manufacturing and business purposes.

Trademark

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) promulgated by the SCNPC on August 23, 1982 and latest amended on April 23, 2019 and came into effect on November 1, 2019, and the Implementation Rules of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) promulgated by the State Council on August 3, 2002 and latest amended on April 29, 2014 and came into effect on May 1, 2014, trademarks approved and registered by the Trademark Bureau are registered trademarks, trademark registrants enjoy exclusive rights to use trademark and are protected by the law. The validity period of a registered trademark is 10 years, commencing from the date of registration.

Domain Name

Pursuant to the Administrative Measures on the Internet Domain Names (《互聯網域名管理辦法》) promulgated by the MIIT on August 24, 2017 and became effective on November 1, 2017. The MIIT is the main regulatory authority responsible for implementing supervision and administration over domain name services nationwide. No organization or individual shall impair the security or stable operation of the internet domain name system.

LAWS AND REGULATIONS ON PRODUCT QUALITY

Pursuant to the Product Quality Law of the PRC (《中華人民共和國產品質量法》) promulgated by the SCNPC on February 22, 1993 and latest amended on December 29, 2018, producers and sellers shall establish a sound internal product quality control system, strictly adhere to a job responsibility system in relation to quality standards and quality liabilities, and implement corresponding examination and inspection measures. The forgery or imitation of quality marks such as certification marks is prohibited; falsifying the place of origin of product, and falsifying or imitating the name or address of another factory is prohibited; adulteration of, or mixing of improper elements with products under manufacturing or on sale, passing off the sham as the genuine or passing off the inferior as the superior is prohibited.

LAWS AND REGULATIONS ON IMPORT AND EXPORT TRADE

Pursuant to PRC Customs Law (《中華人民共和國海關法》) promulgated on January 22, 1987, and latest amended on April 29, 2021, for import and export goods, unless otherwise stipulated, the consignee or consignor of import and export goods may go through customs declaration and tax payment formalities by himself, or may entrust the customs declaration enterprise to go through customs declaration and tax payment formalities. The consignee or consignor of import and export goods and the customs declaration enterprise shall file the customs declaration formalities with the customs in accordance with the law.

Pursuant to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) promulgated by the Standing Committee of the NPC on May 12, 1994, and latest amended on December 30, 2022 and the Regulations on the PRC on the Administration of the Import and Export of Goods (《中華人民共和

國貨物進出口管理條例》) issued by the State Council on December 10, 2001, last amended on March 10, 2024 and took effect on May 1, 2024, no entity or individual may impose or maintain any prohibition or restriction on the import or export of goods except for the goods which is explicitly prohibited or restricted by laws or administrative regulations.

Pursuant to the Provisions on the Registration of Customs Declaration Entities of the People's Republic of China (《中華人民共和國海關報關單位備案管理規定》) which was promulgated by the General Administration of Customs (the "**GAC**") on November 19, 2021 and took effect on January 1, 2022, the consignee or consignor of imported or exported goods or a customs declaration enterprise needs only to apply for record-filing to the customs, with no registration with the GAC necessary any longer. The record-filing information shall be made public via the Import and Export Credit Information Publicity Platform of the Customs of China.

Pursuant to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) promulgated by the SCNPC on May 12, 1994, and latest amended on December 30, 2022, the requirements for foreign trade operators engaging in goods or technology import and export to go through the record-filing registration with the foreign trade department of the State Council or its authorized agencies have been abolished.

LAWS AND REGULATIONS ON LABOR AND SOCIAL SECURITY

Labor Law, Labor Contract Law and Implementing Regulations of the Labor Contract Law of the PRC

According to the Labor Law of the PRC (《中華人民共和國勞動法》), latest amended by the SCNPC on December 29, 2018, the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), latest amended by the SCNPC on December 28, 2012 and became effective on July 1, 2013, and the Implementing Regulations of the Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) which was promulgated by the State Council and became effective on September 18, 2008, a labor contract shall be concluded for establishment of work relationships. Employers shall establish and improve labor rules and regulations in accordance with the law to safeguard employees' labor rights and ensure the fulfillment of labor obligations. Labor contracts must be concluded in writing, with more stringent requirements imposed on employers regarding the execution of fixed-term labor contracts, engagement of temporary workers, and termination of employment relationships.

Social Insurance and Housing Provident Fund

According to the Social Security Law of the PRC (《中華人民共和國社會保險法》), which was latest amended and implemented by the SCNPC on December 29, 2018, and the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), which was latest amended and implemented by the State Council on March 24, 2019, social insurance systems such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance have been established. Any premium paying entity shall carry out social insurance registration at the local social insurance agency and participate in social insurance. Premium paying entities or individuals shall pay social insurance premiums on time and in full amount.

Pursuant to the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》) which was latest amended and implemented by the State Council on March 24, 2019, an entity shall make registration of contribution to the housing provident fund with the housing provident fund management center, and go through the formalities of opening housing provident fund accounts on behalf of its employees. An entity shall timely and fully deposit housing accumulation fund.

LAWS AND REGULATIONS ON TAXATION

Enterprise Income Tax

According to the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》 promulgated by the SCNPC, latest amended and implemented on December 29, 2018 and the Implementation Regulations for the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) promulgated by the State Council, latest amended on December 6, 2024 and implemented on January 20, 2025, the unified enterprise income tax rate is 25%. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishments or premises in the PRC but there is no actual relationship between the relevant income derived and the established institutions or premises set up by them, enterprise income tax is set at the rate of 10% with respect to their income sourced from the PRC. A uniform 25% enterprise income tax rate is imposed to both foreign invested enterprises and domestic enterprises, except where tax incentives are granted to special industries and projects. The enterprise income tax rate is reduced to 20% for qualifying small low-profit enterprises. The recognized high-tech enterprises will enjoy a reduced tax rate of 15% for Enterprise Income Tax.

Value-Added Tax

Pursuant to the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》), which was promulgated by the State Council and was latest amended and implemented on November 19, 2017, and the Implementation Rules for the Provisional Regulations the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》), which was promulgated by the Ministry of Finance and was latest amended on October 28, 2011 and effective from November 1, 2011, entities and individuals engaging in selling goods, providing processing, repairing or replacement services or importing goods within the territory of the PRC are taxpayers of the value-added tax ("**VAT**"), and are subject to VAT. Unless otherwise specified, the tax rate for taxpayers selling or importing goods and providing processing, repairing and replacement services within China is 17% and 11%, 6% and 0% under certain specific circumstances.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-Added Tax Rates, which was issued on April 4, 2018 and implemented on May 1, 2018, the taxpayers with regard to the occurrence of value-added tax taxable sales or imported goods, that were originally applied to the tax rates of 17% and 11%, the tax rates were adjusted to 16% and 10% respectively.

According to the Announcement on Relevant Policies for Deepening the Value-Added Tax Reform, issued by Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on March 20, 2019 and implemented on April 1, 2019, the ordinary value-added tax taxpayers with regard to the occurrence of value-added tax taxable sales or imported goods that were originally applied to the tax rate of 16%, the tax rate were adjusted to 13%; if they were originally applied to the tax rate of 10%, the tax rate were adjusted to 9%.

On December 25, 2024, the SCNPC issued the VAT Law of the PRC (the "**VAT Law**") will come into effect on January 1, 2026, and the Provisional Regulations of the PRC on Value-added Tax will be abolished at the same time. According to the VAT Law, entities and individuals (including individual industrial and commercial households) who sell goods, services, intangible assets, real estate and import goods within the PRC are taxpayers of value-added tax and shall pay VAT in accordance with the law. Unless otherwise specified, the tax rate for taxpayers selling goods and providing processing, repairing and replacement services, leasing services of tangible movable property and importing goods is 13% and 9%, 6% and 0% under certain specific circumstances.

LAWS AND REGULATIONS ON FOREIGN EXCHANGE

According to the Regulations on Foreign Exchange Control of the PRC (《中華人民共和國外匯管理條例》) latest amended by the State Council on August 5, 2008, the regulations apply to the foreign exchange receipts and payments or foreign exchange business activities of domestic institutions and domestic individuals, as well as the foreign exchange receipts and payments or foreign exchange business activities of overseas institutions and foreign individuals in China.

According to the Circular of the State Administration of Foreign Exchange on Issues concerning the Administration of Foreign Exchange Involved in Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) announced by the SAFE on December 26, 2014, the SAFE and its branch offices and administrative offices shall oversee, regulate and inspect domestic companies regarding their business registration, opening and use of accounts, trans-border payments and receipts, exchange of funds and other conduct involved in overseas listing. Domestic company shall, within 15 working days upon the end of its public offering overseas, handle registration formalities for overseas listing with the foreign exchange authority at its place of registration with the relevant materials.

According to the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) issued by SAFE on June 9, 2016, the relevant policies have clearly implemented foreign exchange income from capital account (including foreign exchange capital, foreign debt funds and funds transferred from overseas listing, etc.) that will be settled in banks according to the actual operating needs of domestic institutions. If there are restrictive provisions on the settlement of foreign exchange income from capital account of domestic institutions in current laws and regulations, such provisions shall prevail.

According to the Circular on Optimizing Administration of Foreign Exchange to Support the Development of Foreign-related Business (《國家外匯管理局關於優化外匯管理支持涉外業務發展的通知》) issued by SAFE on April 10, 2020, eligible enterprises are allowed to make domestic payments by using their funds received by way of capital contribution, foreign debts and overseas listing, with no need to provide the evidentiary materials concerning authenticity of such payment to banks on a case-by-case basis in advance, provided that their capital use shall be authentic and compliant, and conform with the prevailing administrative regulations on the use of income under capital accounts. According to the Circular on Further Deepening the Reform to Facilitate Cross-border Trade and Investment (《國家外匯管理局關於進一步深化改革促進跨境貿易投資便利化的通知》) issued by the SAFE on December 4, 2023, foreign exchange funds raised by domestic enterprises through overseas listing, may be directly remitted to the settlement account of capital accounts. Funds in the settlement account of capital accounts may be settled and used at discretion.

LAWS AND REGULATIONS ON OVERSEAS SECURITIES ISSUANCE AND LISTING BY DOMESTIC ENTERPRISES

Laws and Regulations on Securities

The Securities Law of the People's Republic of China (《中華人民共和國證券法》, the "**Securities Law**") which was latest amended by the SCNPC on December 28, 2019 and became effective on March 1, 2020, comprehensively regulate the activities of the domestic securities market in China, including the issuance and trading of securities, the acquisition of listed companies, information disclosure, investor protection, securities trading venues, securities companies, securities registration and clearing institutions, securities service institutions, securities industry associations and securities regulatory authorities, etc. The Securities Law further stipulates that domestic enterprises directly or indirectly issuing securities overseas or listing their securities overseas shall comply with the relevant regulations of the State Council. If domestic company shares are subscribed and traded in foreign currencies, the specific measures shall be separately stipulated by the State Council. The CSRC is a securities regulatory agency established by the State Council, which is responsible for supervising and managing the securities market according to law, maintaining market order and ensuring the legal operation of the market.

Overseas Listing

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the "**Trial Measures**") and relevant guidelines, which took effect on March 31, 2023. According to the Trial Measures, if an enterprise in China directly or indirectly issues or lists shares overseas, it shall file with the CSRC within 3 working days after submitting the application documents for issuance and listing overseas; no overseas offering and listing shall be made under any of the following circumstances: where such securities offering and listing is explicitly prohibited by provisions in laws, administrative regulations and relevant state rules; where the intended securities offering and listing may endanger national security as reviewed and determined by competent authorities under the State Council in accordance with law; where the domestic company intending to make the securities offering and listing, or its controlling shareholder(s) and the actual controller, have committed crimes such as corruption, bribery, embezzlement, misappropriation of property or have undermined the order of socialist market economy during the latest three years; the domestic company intending to make the securities offering and listing is currently under investigation for suspicion of criminal offenses or major violations of laws and regulations, and no conclusion has yet been made thereof; there are material ownership disputes over equity held by controlling shareholder(s) or by other shareholder(s) that are controlled by the controlling shareholder(s) and actual controller.

According to the Provisions on Strengthening Confidentiality and Archives Administration in Respect of Overseas Issuance and Listing of Securities by Domestic Companies (《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定》) (the "**Provisions on Strengthening Confidentiality and Archives Administration**") jointly issued by the CSRC and other relevant departments on February 24, 2023, which took effect on March 31, 2023, in the course of overseas issuance and listing of domestic enterprises, domestic enterprises and securities companies and securities service agencies which provide the corresponding services shall strictly comply with the relevant laws and regulations of the PRC and the requirements of the Provisions on Strengthening Confidentiality and Archives Administration, strengthen legal awareness of confidentiality of state secrets and archives administration, establish a sound system for confidentiality and archives work, adopt the requisite measures to perform the responsibilities of confidentiality and archives administration, and shall not divulge state secrets and work secrets of state agencies or harm state and public interests. To provide or publicly disclose to the relevant securities companies, securities service agencies, overseas regulatory authorities and other entities and individuals, or to provide or publicly disclose, through its overseas listing entities, any document or data involving state secrets or work secrets of state agencies, a domestic enterprise shall apply to the competent department with examination and approval authority for approval in accordance with the law, and file the same with the secrecy administration at the same level for the record. To provide or publicly disclose to the relevant securities companies, securities service agencies, overseas regulatory authorities and other entities and individuals, or to provide or publicly disclose, through its overseas listing subjects, other documents and materials, the disclosure of which will cause adverse impact on the national security or public interests, a domestic enterprise shall strictly go through the corresponding procedures pursuant to the relevant provisions of the state.

GERMANY

Corporate law

Most common legal form of German enterprises is the Limited Liability Company (*Gesellschaft mit beschränkter Haftung* — **GmbH**). A GmbH has one or several shareholders. The liability of the shareholders is limited to their capital contribution (Sec. 13 limited liability companies act — **GmbHG**); the shareholders are not liable for the company's debts, except for fraud and piercing the corporate veil. The shares are freely transferable and inheritable; however, the articles of association may impose further restrictions such as consent requirements. Each share transfer requires notarization (Sec. 15 GmbHG). After effectiveness of the share transfer, the acting notary submits a list of shareholders to the commercial register for documentation purposes. However, vis-à-vis the company, the persons listed as shareholders in such list qualify as shareholders entitled to adopt shareholders' resolutions (Sec. 40 GmbHG). There are rules on the acquisition of shares in good faith from persons being registered in the list of shareholders. The shares are not represented by share certificates. The minimum share capital is EUR25,000 and the minimum nominal amount of a share is EUR 1; it is possible and was best practice in the past that all shares have individual nominal amounts.

A GmbH must have at least two corporate bodies: the management (*Geschäftsführung*) and the shareholders' meeting (*Gesellschafterversammlung*); a supervisory board (*Aufsichtsrat*) or an advisory board (*Beirat* or similar) may be established voluntarily by shareholders' resolution through an amendment of the articles of association. In particular with regard to the advisory board, the shareholders can determine the rights and obligations of its members. If the company has more than 500 employees, a supervisory board must be established with employee representatives elected to such board. The number of employee representatives in the supervisory board depends on the number of employees (1/3 from 500 to 1,999 employees; 1/2 from 2,000 employees onwards). The managing directors are appointed by the shareholders' meeting (unless the supervisory board is competent) and registered with the commercial register. Such registration serves documentation purposes and is not constitutive; however, persons registered in the register can represent the company in transactions even if the appointment as managing director is void or recalled. German law distinguishes between the office as managing director (through appointment) and the contractual basis for the services rendered by the managing director (service agreement between the company and the managing director). The invalidity of one thereof does not impact the validity of the other; it is not even mandatory that a separate service agreement exists. Usually, managing directors are appointed for an indefinite period of time. The powers of the managing directors are unlimited and unlimitable. However, the shareholders' meeting may adopt rules of procedure which constitute internal rules only (i.e. they cannot be enforced against third parties). Moreover, the managing directors are bound by instructions from the shareholders' meeting and conducts business in accordance with its resolutions (Sec. 37 GmbHG). In contrast to other jurisdictions, German law does not know an ultra vires doctrine; i.e. the actions by the managing directors are valid even if the managing directors act outside the corporate object of the company. As there is no such doctrine, the corporate purpose, as set forth in the articles of association, is usually rather generic.

Changes to the articles of association require a registration with the commercial register for being effective. The articles of association are amended by the shareholders meeting with a qualified majority of 75% of the votes cast. They include, amongst others, the company name, the corporate seat, company object and the nominal share capital.

Employment

The German Verification Act (*Nachweisgesetz — NachwG*) obliges employers to set out the essential terms and conditions of the employment relationship and to hand them over to the employee in text form (e.g. by email). Only a few employment conditions (e.g. limitation of term, post-contractual non-competition obligation) need to be agreed upon in writing (wet ink). All employees are entitled to be paid at least the national minimum wage for all working hours — as of 1 January 2025: EUR12.82 (gross) per hour. Employees are entitled to 20 working days paid statutory holiday each year, if they have a five-day working week. Usually, in employment contracts the parties agree on longer paid holiday, where 30 working days paid holiday is standard market practice. There are several additional regulations (e.g. as regards working hours, sickness, pregnant employees) which further regulate the employment relationship.

Under German labour law, there are two kinds of unilateral dismissals: ordinary dismissals and dismissals for good cause. Alternatively, the parties can terminate the employment contract by mutual agreement.

- As a general rule, an ordinary dismissal is valid if the applicable notice period (depending in the seniority between four weeks and seven months to the end of the calendar month) is observed and the dismissal does not violate public policy (e.g., if based on discriminatory grounds). Furthermore, employees in an operation with more than ten full-time-equivalent, and with more than six months' seniority, enjoy protection under the German Dismissal Protection Act. Accordingly, a dismissal has to be "socially justified", which means there has to be (1) person-related reasons, (2) conduct-related reasons or (3) operational reasons. Dismissals for conduct reasons are generally only permissible if the employee has previously been warned for their breach of duty.

- Employment relationships can also be terminated for good cause with immediate effect. Such serious cause exists if facts exist on the basis of which — taking all circumstances of the individual case into account and weighing the interests of employer and employee — the employer cannot reasonably be expected to continue the employment relationship until the notice period has lapsed. Some examples include repeated persistent refusal to work, theft of the employer's property, or work for a competitor of the employer. Furthermore, a dismissal for good cause has to be notified to the employee within two calendar weeks after the employer has obtained knowledge of the facts resulting in the dismissal. Otherwise, the dismissal is invalid.

Besides this, there is special protection against dismissals for certain employees: Pregnant employees, employees on parental leave, severely handicapped persons or those with equal status to severely handicapped persons can only be dismissed with the prior consent of the authorities. Works council members can only be dismissed for good cause or in case of a company shutdown. If a works council exists, it has to be informed at least one week (ordinary dismissal) or three days (dismissal for good cause) before the termination is issued. The works council cannot prevent the dismissal. However, if it has not been properly informed, the dismissal is invalid. In each case, there is no statutory severance in Germany. Employees are only entitled to severance payments under a social plan with the works council (often agreed on in the case of mass layoffs) or under a collective bargaining agreement. However, in practice, many employers and employees will agree on a severance pay to avoid lengthy court proceedings concerning the effectiveness of the termination. This severance will often amount to 50% of the monthly salary per year of service. However, this can vary significantly depending on the strength of the case for dismissal and the previous practice of the employer.

In Germany there are no basic trade union organizations in the company. Instead, if at least five employees are regularly employed in the relevant company, the works councils are the most important points of contact for operational problems. The works councils, in turn, work closely with the union. The works council represents the interests of employees in the company. It monitors that the applicable laws, occupational safety regulations, collective agreements and organization-level agreements are observed by the employer. The works council also advocates the equal treatment of employees and the integration of foreign employees. The works council has certain powers and organizational options within the company which enable it to fulfil its tasks. For example, the works council must agree to every new hiring, must be heard before each dismissal, ensures a fair pay classification or may negotiate with the employer on several working conditions and conclude works council agreements with the employer, which apply for all employees of the company or for certain employee groups. Works council agreements can, for example, generate general holiday principles or holiday plans, working hours, recording of working hours, break regulations or behavioural guidelines for dealing with colleagues or customers and general principles for payment entitlements, e.g. commissions, wage extra payments or annual target planning.

For employee participation in the supervisory board, please refer to the corporate law section.

Foreign Direct Investment (FDI)

Under certain circumstances, acquisitions of German entities by non-German acquirers may be subject to the Foreign Direct Investment control provisions of the German Foreign Trade and Payments Act (*Außenwirtschaftsgesetz,* **AWG**), in combination with the Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung,* **AWV**) entitling the German Federal Ministry of Economic Affairs and Climate Action (*Bundesministerium für Wirtschaft und Klimaschutz*, **BMWK**) to investigate and prohibit such investments.

As a rule, the cross-sector investment review procedure applies here (Sec. 4 para. 1 no. 4, Sec. 5 para. 2 AWG, Sec. 55–59 AWV). This procedure applies in principle to all sectors regardless of the size of the companies involved in the acquisition. Special rules apply to the acquisitions of certain defense and IT security companies (in these cases, there is a sector-specific investment review, Sec. 4 para. 1 no. 1, Sec. 5 para. 3 AWG, Sec. 60–62 AWV).

In principle, any acquisition of a company by investors located outside the territory of the EU or the EFTA region whereby investors acquire ownership of at least 25% of the voting rights of a company resident in Germany can be subjected to such review. If the German company operates critical infrastructure within the meaning of the Act on the Federal Office for Information Security, or if it provides other services of particular relevance to security within the meaning of Sec. 55 para. 1 sent. 2 no. 1 to 6 AWV, the threshold for the review is only at least 10%. If the direct buyer is resident in the territory of the EU, such review may be performed if there are indications of an abusive approach or a circumvention transaction (Sec. 55 para. 2 AWV).

Special rules for investment reviews apply to the acquisition of companies that operate in sensitive security areas. This includes manufacturers and developers of war weapons and other key military technologies, and products with IT security features that are used for processing classified government information. Similar special rules also apply to the acquisition of a company that operates a high-grade earth remote sensing system (Sec. 10 of the Act on Satellite Data Security). Any acquisition of a company by foreign investors whereby these acquire ownership of at least 10% of the voting rights of a company resident in Germany can be subjected to such review. In this so-called "sector specific" review procedure, the BMWK will examine whether the acquisition by the non-German acquirer conflicts with essential security interests of Germany.

German Merger Control

A concentration of undertakings, including the acquisition of a German business, must be notified to the German Federal Cartel Office (*Bundeskartellamt*, **BKartA**), pursuant to Sections 35 and 39 of the German Act against Restraints of Competition (*Gesetz gegen Wettbewerbsbeschränkungen*, **GWB**), prior to the execution of the concentration if,

- combined worldwide turnover of the participating companies was higher than EUR500 million or more in the business year preceding the merger; and
- domestic turnover of at least one participating company was more than EUR50 million; and
- domestic turnover of another participating company was more than EUR17.5 million

or

- the combined aggregated worldwide turnover of all participating undertakings is more than EUR500 million, and
- the domestic turnover of one participating undertaking is more than EUR50 million, and
- neither the target undertaking nor any other undertaking concerned achieved a domestic turnover of more the EUR17.5 million,
- the consideration for the acquisition exceeds EUR400 million and
- the target undertaking has substantial operations in Germany.

Furthermore, the German Federal Cartel Office can issue a decree ordering companies to notify certain concentrations in specific industries for a period of three years if these industries were previously the subject of a sector inquiry.

The acquisition of 25% of the shares in another undertaking is already deemed a concentration under German law.

Foreign Subsidies Regulation

The Foreign Subsidies Regulation (**FSR**) aims at preventing anti-competitive influences on the EU internal market through subsidies granted by non-EU countries to companies operating within the EU. This regulation is particularly relevant for foreign acquirers.

Any concentration must be notified to the European Commission prior to its implementation if:

- at least one of the merging undertakings, the acquired undertaking or the joint venture is established in the Union and generates an aggregate turnover in the Union of at least EUR500 million; and
- in the companies involved have jointly received third-country benefits totalling more than EUR50 million in the three years preceding the conclusion of the agreement, the announcement of the public bid, or the acquisition of a controlling interest.

The European Commission will assess whether the granted subsidies distort the internal market. The assessment considers factors such as the amount of the subsidy, the recipient's market position, and the subsidy's impact on competition. If the European Commission concludes that the subsidies have a distortive effect, it will apply the so-called balancing test to determine whether the distortion for the internal market is outweighed by benefits. Such benefit could relate to an EU policy objective (e.g. environmental protection, digital transformation or creating jobs).

Contract law/Commercial law

German contract law is primarily governed by the German Civil Code (*Bürgerliches Gesetzbuch* — **BGB**) and by the German Commercial Code (*Handelsgesetzbuch* — **HGB**). The BGB applies to all kind of transactions, such as sales agreements (Sec. 433 BGB), rental agreements (Sec. 53 BGB), whereas the HGB applies to B2B transactions only. In cross-border transactions, the parties can agree on the applicable legislation; in lack of such agreement, the contract is governed by the law pursuant to which the party, which is rendering the service or selling the goods, operates, where such party is located (i.e. not the payor's law is decisive). The use of terms and conditions (T&C) is limited as deviations from main legal principles are null and void; moreover, surprising T&Cs such as obligations not relating to the subject matter of an agreement are void.

The statutory warranty period applicable to sales agreements is 2 years. Deviations are possible if agreed to in the individual case and, in case of B2B transactions, to a certain degree by T&C. However, if the good is designated to be on-sold to consumers, the warranty period commences for all parties along the distribution chain with the delivery to the consumer; insofar, shortening of the warranty period is not possible. A shortening of the warranty period is possible with respect to parts which are designated to be built into other products.

Data Protection

Germany's data protection framework is primarily governed by the General Data Protection Regulation (**GDPR**) and the German Federal Data Protection Act (*Bundesdatenschutzgesetz*, **BDSG**). Under these applicable data protection laws, organizations processing personal data as a controller have, for example, the following obligations:

- Compliance with data protection principles: Controllers must at all times comply with the data protection principles. This includes, e.g., ensuring the lawfulness of the processing of personal data, the principle of purpose limitation, transparency and data minimization. Controllers must also ensure that personal data they process is accurate (Art. 5 para. 1 GDPR). Controllers must also ensure that transfers of personal data to third countries (outside of the EU/EEA) are protected by an adequate level of data protection (Art. 44 et seq. GDPR).

- Documentation requirements: Controllers must document their compliance with applicable data protection law and must be able to prove their compliance. Under the GDPR, controllers bear the burden of proof for compliance meaning that, if, for example, it is unclear whether consent was obtained in a legally valid manner, the processing will be deemed unlawful unless the controller is able to prove otherwise (Art. 5 para. 2 GDPR).

- Incident notifications and cooperation with supervisory authorities: Organizations are obligated to cooperate with these authorities, in particular notify them of data breaches within 72 hours after becoming aware of a breach (Art. 33 GDPR).

- Further obligations under the BDSG: The BDSG may impose further obligations and/or elaborate on obligations under the GDPR. Such clarifications may concern, e.g., technical and organizational measures to be considered when processing special categories of personal data (Art. 9 GDPR, in connection with Section 22 para. 2 BDSG).

The BDSG also mandates the appointment of a Data Protection Officer (DPO) under certain conditions in addition to appointment obligations under the GDPR, such as when an organization employs at least 20 individuals involved in data processing (Section 38 para. 1 BDSG). Additionally, Germany has sector-specific data protection laws, like the Telecommunications-Telemedia-Data Protection Act, which addresses data protection in telecommunications and digital services.