This section sets forth a summary of the most significant laws and regulations that affect our business and the industry in which we operate.

HONG KONG LAWS AND REGULATIONS

Apart from the general rules and regulations in Hong Kong applicable to our Group, there is no specific regulatory framework in Hong Kong that governs the business provided by our Group in Hong Kong, namely trading of electronic products. The following sets out the general Hong Kong rules and regulations applicable to our business in Hong Kong.

Business Registration

The Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong) requires every person carrying on any business shall make application to the Commissioner of Inland Revenue in the prescribed manner for the registration of that business. Business registration application shall be made to the Commissioner of Inland Revenue as soon as practicable after the prescribed business registration fee are paid. Then business registration certificate or branch registration certificate for the relevant business or the relevant branch shall be issued as the case may be.

Supply of Goods

The Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) ("**Sale of Goods Ordinance**") is the main governing law in Hong Kong in relation to the sale of goods.

Section 15 of the Sale of Goods Ordinance provides that where there is a contract for the sale of goods by description, there is an implied condition that the goods shall correspond with the description.

Section 16 of the Sale of Goods Ordinance provides that where a seller sells goods in the course of a business, there is an implied condition that the goods supplied under the contract are of merchantable quality, except that there is no such condition (i) as regards to defects specifically drawn to the buyer's attention before the contract is made; or (ii) if the buyer examines the goods before the contract is made, as regards defects which that examination ought to reveal; or (iii) if the contract is a contract by sample, as regards defects which would have been apparent on a reasonable examination of the sample.

Where any right, duty or liability would arise under a contract of sale of goods by implication of law, it may (subject to the Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong)) be negative or varied by express agreement, or by course of dealings between the parties, or by usage if the usage is such as to bind both parties to the contract.

Supply of Services

The supply of services in Hong Kong is regulated by the Supply of Services (Implied Terms) Ordinance (Chapter 457 of the Laws of Hong Kong) ("**Supply of Services Ordinance**"), which consolidates and amends the law with respect to the terms to be implied in contracts for the supply of services.

Section 5 of the Supply of Services Ordinance provides that in a contract for the supply of service where the supplier is acting in the course of a business, there is an implied term that the supplier will carry out the service with reasonable care and skill.

Section 6 of the Supply of Services Ordinance provides that, where under a contract for the supply of a service where the supplier is acting in the course of a business, the time for the service to be carried out is not fixed by the contract, is not left to be fixed in a manner agreed by the contract or is not determined by the course of dealing between the parties, there is an implied term that the supplier will carry out the service within a reasonable time.

Import and Export (Registration) Regulations

Regulations 4 and 5 of the Import and Export (Registration) Regulations (chapter 60E of the Laws of Hong Kong) (the "**Import and Export Registration Regulations**") provide that every person who imports or exports any article other than an exempted article shall lodge an accurate and complete import or export declaration relating to such article using services provided by a specific body with the Commissioner of Customs and Excise within 14 days after the importation and exportation of the article.

Any person failing to declare within 14 days after the importation without reasonable excuse is liable to a fine of HK$1,000 upon summary conviction and HK$100 in respect of every day such declaration has not been lodged. Furthermore, the Import and Export Registration Regulations also provide that any person knowingly or recklessly lodges any declaration with the Commissioner that is inaccurate in any material particular shall be liable to a fine of HK$10,000 upon summary conviction.

Transfer Pricing

Regulations concerning transfer pricing between associated enterprises can be found in the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "**IRO**") and the comprehensive double taxation agreements (the "**DTAs**") between Hong Kong and other countries or territories, including the PRC. Pursuant to Section 20(2) of the IRO, a non-resident person shall be liable to Hong Kong profits tax where it carries on business with a closely connected resident person and such business is so arranged that it produces to the resident person either no profits which arise in or derive from Hong Kong or less than the ordinary profits which might be expected to arise in or derive from Hong Kong.

Under section 60 of the IRO, where it appears to an assessor that for any year of assessment any person chargeable with tax has not been assessed or has been assessed at less than the proper amount, the assessor may, within the year of assessment or within 6 years after the expiration thereof, assess such person at the amount or additional amount which according to his judgment such person ought to have been assessed, and, provided that where the non-assessment or under-assessment of any person for any year of assessment is due to fraud or willful evasion, such assessment or additional assessment may be made at any time within 10 years after the expiration of that year of assessment.

Section 61A of the IRO stipulates that where it would be concluded that person(s) entered into or carried out transactions for the sole or dominant purpose to obtain a tax benefit (which means the avoidance or postponement of the liability to pay tax or the reduction in the amount thereof), liability to tax of the relevant person(s) will be assessed (a) as if the transaction or any part thereof had not been entered into or carried out; or (b) in such other manner as the supervising authority considers appropriate to counteract the tax benefit which would otherwise be obtained.

The DTAs contain provisions mandating the adoption of arm's length principle for pricing transactions between associated enterprises. The arm's length principle uses the transactions of independent enterprises as a benchmark to determine how profits and expenses should be allocated for the transactions between associated enterprises. The basic rule for DTA purposes is that profits tax charged or payable should be adjusted, where necessary, to reflect the position which would have existed if the arm's length principle had been applied instead of the actual price transacted between the enterprises.

The Departmental Interpretation and Practice Notes No. 45 — Relief from Double Taxation due to Transfer Pricing or Profit Reallocation Adjustments issued by the Inland Revenue Department in April 2009 makes it available that where double taxation arises as a result of transfer pricing adjustments made by the tax authorities of another country, a Hong Kong taxpayer may potentially claim relief under the tax treaty between Hong Kong and that country (countries entered into tax arrangements with Hong Kong includes the PRC).

The Inland Revenue Department also issued a Departmental Interpretation and Practice Notes No. 46 in December 2009 which provides a comprehensive guideline on transfer pricing and further issued a Departmental Interpretation and Practice Notes No. 48 in March 2012 which provides a mechanism for taxpayers to pre-agree their transfer pricing arrangements with the Inland Revenue Department.

Furthermore, the Inland Revenue (Amendment) (No.6) Bill 2017 (the "**Amendment Bill**") was gazetted on 29 December 2017. The main objectives of the Amendment Bill are to codify the transfer pricing principles into the IRO and implement the minimum standards of the Base Erosion and Profit Shifting ("**BEPS**") package promulgated by the Organisation for Economic Co-operation and Development such as the transfer pricing documentation requirements. The BEPS package seeks to counter the exploitation of gaps and mismatches in tax rules by multinational enterprises to artificially shift profits to low or no-tax locations where there is little or no economic activity.

In particular, section 50AAF of the Amendment Bill codifies the arm's-length principle and allows for an adjustment of a taxpayer's profits upwards/losses downwards if the taxpayer has entered into transaction(s) with an associated person, and the pricing of such transaction(s) differs from that between independent persons and has created a Hong Kong tax advantage. Section 82A of the Amendment Bill stipulated that a person is liable to be assessed for penalties to additional tax of the amount of tax undercharged resulting from transfer pricing adjustments, unless it is proved that reasonable efforts have been made to determine the arm's length price for the transaction(s). Pursuant to section 58C of the Amendment Bill, Hong Kong entity engaged in transactions with associated enterprises will be required to prepare master and local files for accounting periods beginning on or after 1 April 2018, except where they meet either one of the following exemptions in respect of business size or relevant transaction volume:

Exemption based on size of business: Taxpayers meeting any two of the following conditions are not required to prepare the master file and local files:

(i) Total annual revenue not exceeding HK$200 million;

(ii) Total assets not exceeding HK$200 million; or

(iii) No more than 100 employees.

Exemption based on related party transactions: If the amount of a category of controlled transactions for the relevant accounting period is below the proposed threshold, an enterprise will not be required to prepare a local file for that particular category of transactions:

(i) Transfer of properties (other than financial assets and intangibles): HK$220 million;

(ii) Transaction of financial assets: HK$110 million;

(iii) Transfer of intangibles: HK$110 million;

(iv) Any other transaction (e.g., service income and royalty income): HK$44 million

The Amendment Bill was introduced into the Legislative Council in January 2018 and had not been enacted as at the Latest Practicable Date.

PRC LAWS AND REGULATIONS

Incorporation, Operation and Management of Wholly Foreign-owned Enterprise

The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC (中華人民共和國公司法) (the "Company Law"), which was promulgated by the Standing Committee of the National People's Congress on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. Pursuant to the Company Law, companies are classified into categories, namely limited liability companies and limited companies by shares. The Company Law shall also apply to foreign-invested limited liability companies and companies limited by shares. According to the Company Law, the provisions otherwise prescribed by the laws on foreign investment shall prevail.

The establishment procedures, approval procedures, registered capital requirement, foreign exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprises Law of the PRC (中華人民共和國外資企業法) (the "Wholly Foreign-owned Enterprise Law"), which was promulgated on 12 April 1986, amended on 31 October 2000 and 3 September 2016, and the Implementation Regulations of the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則) (the "Implementation Regulations"), which was promulgated on 12 December 1990, amended on 12 April 2001 and 19 February 2014.

Any investments conducted by the foreign investors and foreign enterprises in the PRC shall be subject to the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) (the "Guidance Catalogue"), the latest version of which was promulgated by the National Development and Reform Commission (國家發展和改革委員會) (the "NDRC") and the Ministry of Commerce (商務部) (the "MOFCOM") on 28 June 2017 and came into effect on 28 July 2017. The Guidance Catalogue divides the foreign investment industries into the encouraged foreign investment industries, the restricted foreign investment industries and the prohibited foreign investment

industries. Industries which are not listed in the Guidance Catalogue shall be classified as the permitted foreign investment industries. According to the Guidance Catalogue, the core business of our PRC subsidiary falls within the permitted category for foreign investment on a wholly-owned basis.

Pursuant to the Interim Measures for Filing Administration of Establishment and Changes of Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法), which was promulgated by the MOFCOM and became effective on 8 October 2016, and amended on 30 July 2017 and 29 June 2018, where establishment and changes to a foreign-invested enterprise do not fall within the scope of special administration measures for foreign investment admission as stipulated by the NDRC and MOFCOM, the foreign-invested enterprise shall go through filling procedures instead of the procedures for approvals. However, where establishment and changes to a foreign-invested enterprise falls within the scope of special administration measures for foreign investment admission as stipulated by the State, the foreign-invested enterprise shall go through procedures for approvals according to the relevant laws and regulations governing foreign investment.

According to the Announcement 2016 No. 22 of the NDRC and the MOFCOM promulgated on 8 October 2016, with the approval of the State Council, the special entry administration measures for foreign investment shall be applied according to the provisions on restricted and prohibited categories specified in the Guidance Catalogue (2015 Revision), and encouraged category therein on which equity or senior management related requirements are imposed. According to the Announcement 2017 No. 37 of the MOFCOM promulgated on 30 July 2017, In the pilot free trade zones, the scope for implementing the special management measures for market entry as required by the State shall be subject to the provisions of the Special Management Measures for Market Entry of Foreign Investment in Pilot Free Trade Zones (Negative List) (2017 Version) as of 10 July 2017; outside the pilot free trade zones, the scope for implementing the special management measures for market entry as required by the State shall be subject to the provisions of the Special Management Measures for Market Entry of Foreign Investment (Negative List for the Market Entry of Foreign Investment) in the Guidance Catalogue (2017 vision).

According to the Special Management Measures for Market Entry of Foreign Investment (Negative List) (2018 Version) which shall become effect on July 28, 2018, in the Guidance Catalogue (2017 vision), the Special Management Measures for the Market Entry of Foreign Investment (Negative List for the Market Entry of Foreign Investment) shall be simultaneously repealed and the Catalogue of Industries in Which Foreign Investment is Encouraged shall continue to be effective. The core business of our PRC subsidiary falls within the permitted category for foreign investment on a wholly-owned basis without equity or senior management related requirements, thus our Group falls outside the scope of aforementioned special administrative measures or approval procedures.

Provisions for Import and Export Goods

Pursuant to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法) adopted on 12 May 1994, amended on 6 April 2004 and 7 November 2016 by the SCNPC and implemented since 1 July 2004, the State allows free import and export of goods and technologies, unless it is otherwise provided under the laws and administrative regulations that the import and export of goods and technologies shall be restricted or prohibited (i) for the purposes of the public safety, public interests or morals; (ii) in order to protect the human health or security, the animals and plants life or health or the environment, implement the measures in respect of the importations and exportations of gold or silver, establish or accelerate the establishment of a particular domestic industry, or maintain the State's international financial status and the balance of international payment; (iii) in the case of domestic shortage in supply or the effective protection of exhaustible natural resources, the limited market capacity of the importing country or region, or the occurrence of serious confusion in the export operation order; or (iv) for the necessary restriction on the import of agricultural, animal husbandry or fishery products in any form, etc.

Pursuant to the Foreign Trade Law of the PRC and Measures for the Archival Filing and Registration of Foreign Trade Business Operators (對外貿易經營者備案登記辦法) which was promulgated by the MOFCOM on 25 June 2004, became effective on 1 July 2004 and amended on 18 August 2016 the PRC adopted a filing and registration system for foreign trade operators engaged in imports and exports of goods, implemented by the Foreign Trade authority under the State Council or its entrusted agencies. Foreign trade operators that have not filed for registration in accordance with the provisions will be declined by the PRC Customs to carry out the PRC Customs clearance and inspection procedures for import and export of goods.

Pursuant to the Customs Law of the PRC (中華人民共和國海關法) promulgated by the SCNPC on 22 January 1987 and amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017 and related regulations, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted PRC Customs brokers that have registered with the PRC Customs. The consignees and consignors for import or export goods and the PRC Customs brokers engaged in the PRC Customs declaration shall register with the PRC Customs, and no enterprises or persons can make declarations without registering with the PRC Customs or obtaining the relevant qualifications for declaration in accordance with the law.

Principal regulations on the inspection of import and export commodities are set out in the Law of the PRC on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法) promulgated by the Standing Committee of the NPC on 21 February 1989 and amended on 28 April 2002, 29 June 2013 and 27 April 2018 and its implementation rules. According to the aforesaid law and its implementation regulations, the Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) ("AQSIQ") shall be in charge of the inspection of import and export commodities throughout the country. The local inspection and quarantine authorities set up by AQSIQ shall be responsible for the inspection of import and export commodities within areas under their jurisdiction. The import and export commodities that are subject to compulsory inspection listed in the catalogue compiled by the State administration shall be inspected by the commodity inspection authorities, and the consignor shall apply to the inspection and quarantine authorities for inspection in the places and within the time limit specified by AQSIQ. No permission shall be granted for the export of export commodities subject to mandatory inspection by the inspection and quarantine authorities until they have been found to be up to standard through inspection. While the import and export commodities that are not subject to statutory inspection shall be subject to random inspection. Consignees and consignors themselves or its entrusted agent may apply for inspection to the commodity inspection authorities.

Regulations on Work Safety

The Production Safety Law of the PRC (中華人民共和國安全生產法) (the "Production Safety Law") which was promulgated on 29 June 2002, became effective on 1 November 2002 and amended on 27 August 2009 and 31 August 2014. The Production Safety Law provides safety standards for any production or business operation in order to prevent and reduce safety accidents, defend the safety of life and property of the masses. The State Administration of Work Safety established by the State Council is the main regulator of the nationwide supervision and administration of the Production Safety Law. Local government authorities at the county level and above are responsible for supervision and administration of production safety within their respective local jurisdiction.

Occupational Health

In accordance with the Law of the PRC on Prevention and Control of Occupational Diseases (中華人民共和國職業病防治法) promulgated by the SCNPC on 27 October 2001, which was became effective on 1 May 2002 and amended on 31 December 2011, 2 July 2016 and 4 November 2017, the employer must adopt effective facilities for the prevention and control of occupational diseases, and provide laborers with individual articles for the prevention and control of occupational diseases. The employer shall detect and assess the occupational-disease-inductive factors in the workplace on a regular basis, as required. The detection and assessment result shall be archived in the occupational health file of the employer, and be regularly reported to local production safety supervision and management departments and announced to the laborers.

Regulations on Product Quality

The principal legal provisions governing product liability are set out in the Product Quality Law of the PRC (中華人民共和國產品質量法) (the "Product Quality Law"), which was promulgated on 22 February 1993, became effective on 1 September 1993 and amended on 8 July 2000, 27 August 2009. The Product Quality Law is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law. Business in production and sale of our PRC subsidiary should comply with the Product Quality Law and they shall be liable to product quality.

According to the Regulations of the PRC on Certification and Accreditation (中華人民共和國認證認可條例), which was promulgated by the State Council on 3 September 2003, became effective on 1 November 2003 and amended on 6 February 2016, the State will promote certification on products,

services and management systems conforming to the requirements of the economic and social development; and the term "certification" as mentioned refers to the assessment activities carried out by the certification bodies to testify whether the products, services, and management systems are in conformity with the relevant technical norms and their compulsive requirements or standards, and the term "accreditation" as mentioned refers to the assessment activities carried out by the accreditation bodies to recognise the capabilities and qualifications of the certification bodies, inspection organisations and laboratories, and practicing personnel engaging in such certification activities as appraisal and examination, etc.

Regulations on Environmental Protection

The Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the "Environmental Protection Law") became effective on 26 December 1989 and was amended on 24 April 2014. The Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例) (the "Administration Regulations") was promulgated and became effective on 29 November 1998, and amended on 27 February 2003 and 16 July 2017. According to the Environmental Protection Law and the Administration Regulations:

a) enterprises, public institutions and other producers and business operators that discharge pollutants shall take measures to prevent and control the environmental pollution and harm caused by waste gas, waste water, waste residues, medical waste, dust, malodorous gases, radioactive substances, noise, vibration, optical radiation and electromagnetic radiation, etc. generated during production, construction or other activities;

b) a statement on environmental impact should be compiled for a construction project that may cause light impact on the environment, giving analysis or special-purpose evaluation of the pollution generated and environmental impact caused by the construction project; and a registration form should be filled out and submitted for a construction project that has slight impact on the environment and necessitates no environmental impact evaluation.

The competent department of environmental protection of the State Council shall conduct unified supervision and administration of the environmental protection work throughout the country. The competent departments of environmental protection of the local people's governments at or above the county level shall conduct unified supervision and administration of the environmental protection work within their respective administrative regions. Different penalties shall be imposed against persons or enterprises in violation of the Environmental Protection Law depending on the individual circumstances and the extent of contamination. Such penalties include fines, the suspension of operations or shut-down or orders to close down or criminal responsibility.

Our operations are also subject to Law of the PRC on Environmental Impact Assessment (中華人民共和國環境影響評價法), the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), the Law of the PRC on the Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境噪聲污染防治法) and the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法). These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. Business operations of our PRC subsidiary should comply with laws and regulations concerning the environment protection. Operations of companies shall also be under the supervisor of the environment protection bureau.

According to the Environmental Protection Tax Law of the PRC (中華人民共和國環境保護稅法) and Regulation on the Implementation of the Environmental Protection Tax Law of the PRC (中華人民共和國環境保護稅法實施條例) which became effective from 1 January 2018, within the territory of the PRC and other sea areas under the jurisdiction of the PRC, the enterprises, public institutions and other producers and operators that directly discharge pollutants to the environment are taxpayers of environmental pollution tax, and shall pay environmental pollution tax in accordance with the provisions of them.

Regulations on Intellectual Property

Copyright & Patent

The products in the PRC shall be subject to intellectual property laws, which mainly include the Copyright Law of the PRC (中華人民共和國著作權法) (the "Copyright Law"), and the Patent Law of the PRC (中華人民共和國專利法) (the "Patent Law"). China is also a signatory to all major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, the Madrid Agreement concerning the International Registration of Marks and Madrid Protocol, the Patent Cooperation Treaty and the Agreement on Trade-Related Aspects of Intellectual Property Rights.

Under the Copyright Law, which was promulgated on 7 September 1990 and became effective on 1 June 1991, amended on 27 October 2001 and 26 February 2010, works of Chinese citizens, legal persons or entities without legal personality, whether published or not, shall enjoy copyright in accordance with the law. The copyright shall include the right of publication, the right of authorship, the right of alternation, the right of integrity, the right of exploitation and the right to remuneration.

According to the Patent Law promulgated on 12 March 1984 and became effective on 1 April 1985 and was amended on 4 September 1992, 25 August 2000 and 27 December 2008 and which became effective on 1 October 2009, there are three types of patents, including invention patents, design patents and utility model patents. Invention patents are valid for 20 years, while design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

Pursuant to the Regulations on the Protection of Computer Software (<計算機軟件保護條例>), which was promulgated by State Council on 4 June 1991 and amended on 20 December 2001, 8 January 2011 and 30 January 2013, and the Rules for the Registration of Computer Software Copyright (<計算機軟件著作權登記辦法>), which was promulgated by the China Copyright Office and came into effective on 20 February 2002, anyone publishes, revises or translates computer software without obtaining the prior approval of the computer software copyright holders shall bear civil liability to the copyright owner because of harming the copyright.

Domain Name

The Administrative Measures for Internet Domain Names ((<中國互聯網域名管理辦法>) promulgated by the Ministry of Industry and Information Technology on 24 August 2017 and became effective on 1 November 2017, the Implementing Rules of Domain Name Registration (域名註冊實施細則) issued by China Internet Network Information Center (中國互聯網絡信息中心) (the "CINIC") which became effective on 29 May 2012, and the Measures on Domain Name Disputes Resolution (中國互聯網絡信息中心域名爭議解決辦法) issued by CINIC with effect from 1 September 2014. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration. Domain name disputes shall be submitted to institutions authorized by the CINIC for resolution.

Regulations on Foreign Currency Exchange

The principal regulation governing foreign currency exchange in the PRC is the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the "Foreign Exchange Administration Rules"). It was promulgated by the State Council on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 1 August 2008. Pursuant to the Foreign Exchange Administration Rules, the payment in and transfer of foreign exchange for current international transactions shall not be subject to the government control or restriction. Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments. Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of the SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions.

While convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loan are subject to registration with the SAFE and approval or file with the relevant governmental authorities (if necessary).

On 30 March 2015, SAFE promulgated the Circular on Reforming the Management Mode of Foreign Exchange Capital Settlement of Foreign Investment Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (the "Circular No.19") to reform the management approach regarding the settlement of the foreign exchange capital of foreign-invested enterprises. Circular No.19 implemented a discretional foreign exchange settlement where the foreign exchange capital in the capital account of foreign-invested enterprises for which the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) has been handled can be settled at the banks based on the actual operation needs of the enterprises.

On 9 June 2016, the SAFE further promulgated the Circular on Relevant Issues Concerning the Reform and Regulation of the Administrative Policies of the Conversion under Capital Items (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) (the "Circular No.16"). The Circular No.16 provides that domestic enterprises (including Chinese-funded enterprises and foreign-invested enterprises, excluding financial institutions) may all settle their external debts in foreign currencies according to the method of voluntary foreign exchange settlement, the foreign exchange earnings under capital account to which the application of discretional foreign exchange settlement has been specified by relevant policies (including capitals in foreign currencies, external debts, funds repatriated from overseas listing, etc.) may be settled by banks based on the actual operating needs of domestic institutions. However, to use the converted RMB, an enterprise still needs to provide supporting documents and goes through the review process with the banks for each withdrawal. A negative list with respect to the usage of the capital and the RMB proceeds through the aforementioned settlement procedure is set forth under the Circular No.16.

Overseas Investment by Domestic Residents

Notice of the State Administration of Foreign Exchange on Issues Relating to Foreign Exchange Control for Overseas Investment and Financing and Round-tripping by Chinese Residents through Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the "Circular No. 37"), which was promulgated and effective on 4 July 2014, replaces Notice on Issues relating to Foreign Exchange Administration for Financing and Round-trip Investments by Domestic Residents through Overseas Special-Purpose Companies (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知). According to the Circular No. 37, prior to making contribution to a Special-Purpose Vehicles ("SPV") with legitimate holdings of domestic or overseas assets or interests, a Mainland resident shall apply to the relevant Foreign Exchange Bureau for foreign exchange registration of overseas investment. Mainland resident individuals shall refer to Chinese citizens holding the identity cards for Mainland residents, military identity documents or identity documents for Chinese armed police force, and overseas individuals who do not hold any Mainland legal identity document, but who have habitual residences within the territory of China due to relationship of economic interests. After a SPV has completed overseas financing, if the funds raised are repatriated to the Mainland for use, relevant Chinese provisions on foreign investment and external debt management shall be complied with.

Under the relevant rules, failure to comply with the registration procedures set forth in Circular No. 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject the relevant domestic resident to penalties under PRC foreign exchange administration regulations.

On 13 February 2015, SAFE promulgated the Circular on Further Simplifying and Improving Direct Investment-related Foreign Exchange Administration Policies (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) (the "Circular No. 13"), which went into effect on 1 June 2015. Circular No. 13 simplifies the foreign exchange registration procedures for foreign direct investment and overseas direct investment, enables enterprises to handle it in a designated foreign exchange bank, and abolishes the capital contribution confirmation registration procedures. The foreign exchange registration procedure for direct investment is delegated to local banks which, after reviewing the documents a foreign-invested enterprise submits, will complete the registration through the online Capital Account Information System managed by SAFE.

Regulations on Labour and Safety

According to the PRC Labour Law (中華人民共和國勞動法) promulgated on 5 July 1994 and became effective on 1 January 1995 and amended on 27 August 2009, workers are entitled to fair employment, choice of occupation, labour remuneration, leave, a safe workplace, a sanitation system, social insurance and welfare and certain other rights. The working time for workers may not exceed eight hours a day and no more than 44 hours a week on average. Employers shall establish and improve their work safety and sanitation system, educate employees on safety and sanitation and provide employees with a working environment that meets the national work safety and sanitation standards.

The PRC Labour Contract Law (中華人民共和國勞動合同法) was promulgated on 29 June 2007 and became effective on 1 January 2008 and amended on 28 December 2012, and its implementation regulations were implemented on 18 September 2008. According to the Labour Contract Law, labour contracts must be executed in writing to establish labour relationships between employers and employees. Employees who fulfill certain criteria, including having worked for the same employer for 10 years or more, may demand that the employer execute a permanent labour contract. Wages paid by employers may not be lower than the local minimum wage. Both employers and employees must perform their respective obligations stipulated in the labour contracts. Where workers are provided by a staffing company, the staffing company is the employer and performs the legal obligations of an employer toward the dispatched workers, including, among others, entering into a labour contract with a fixed term of more than two years with the workers and paying remuneration for their labour. The staffing company must conclude a labour dispatch agreement with the entities that receive labour services. In the event of a violation of any legal provisions of the Labour Contract Law, administrative penalties may be imposed on employers by the competent PRC government authority in charge of labour administration, including warnings, rectification orders, fines, orders for payment of wages and compensation to employees, revocation of business licenses and other penalties. An entity receiving workers from a staffing company may be held jointly and severally liable together with the staffing company in case harm is done to workers as a result of the staffing company's violation of the Labour Contract Law.

Pursuant to the PRC Social Insurance Law (中華人民共和國社會保險法) promulgated on 28 October 2010, which became effective on 1 July 2011, employers in the PRC must register with the relevant social insurance authority and make contributions to the basic pension insurance fund, basic medical insurance fund, unemployment insurance fund, maternity insurance fund and work-related injury insurance fund. Pursuant to the PRC Social Insurance Law, basic pension insurance, basic medical insurance and unemployment insurance contributions must be paid by both employers and employees, while work-related injury insurance and maternity insurance contributions must be paid solely by employers. An employer must declare and make social insurance contributions in full and on time. The social insurance contributions payable by employees must be withheld and paid by employers on behalf of the employees. Employers who fail to register with the social insurance authority may be ordered to rectify the failure within a specific time period. If the employer fails to rectify the failure to register within a specified time period, a fine of one to three times the actual premium may be imposed. If the employer fails to make social insurance contributions on time and in full, the social insurance collecting agency shall order the employer to make up the shortfall within the prescribed time period and impose a late payment fee amounting to 0.05% of the unpaid amount for each day overdue. If the non-compliance continues, the employer may be subject to a fine ranging from one to three times the unpaid amount owed to the relevant administrative agency.

Pursuant to the Regulations on the Administration of Housing Accumulation Funds (住房公積金管理條例) effective on 3 April 1999, as amended on 24 March 2002, a unit (including a foreign investment enterprise) shall undertake the registration with the administrative centre of housing provident funds and pay the funds for their staff. If an employer, in violation of the aforesaid regulations, fails to undertake registration or to open the housing provident funds account for its employees, the administrative centre of housing provident funds will impose an order for completion within prescribed time limit, if such employer further fails to process within the aforesaid time limit, a fine ranging from RMB10,000 to RMB50,000 will be imposed. On the other hand, if a unit, in violation of the aforesaid regulations, fails to pay or to fully pay the housing provident funds, the administrative centre of housing provident funds will impose an order for payment within a prescribed time limit if such unit further fails to make payment within the aforesaid time limit, the centre shall have the right to apply for compulsory enforcement in court.

Laws and Regulations Relating to PRC Taxation

Enterprise income tax

According to the Enterprise Income Tax Law (中華人民共和國企業所得税法) (the "EIT Law") of the PRC promulgated on 16 March 2007, effective on 1 January 2008 and amended on 24 February 2017, and the Implementation Rules of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得税法實施條例) (the "Implementation Rules") effective on 1 January 2008, the enterprise income tax (the "EIT") for both domestic and foreign-invested enterprises shall be at the same rate of 25% effective from 1 January 2008.

Pursuant to the Circular of the State Administration of Taxation on the Issues Concerning Implementation of the Preferential Income Tax for High-Tech Enterprises (國家税務總局關於實施高新技術企業所得税優惠有關問題的通知) effective on 1 January 2008, any qualified high-tech enterprise after identification (re-examination) may apply for preferential enterprise income tax from the year when the approval of identification (re-examination) is valid. After acquiring the high-tech enterprise certificate issued by high-tech enterprise identification administration agencies of provinces, autonomous regions, municipalities directly under the Central Government and separately planning cities, a high-tech enterprise may hold the "high-tech enterprise certificate" and its copies and relevant materials to apply to the competent tax authority for handling the formalities of reduction or exemption of tax. Consequently, the high-tech enterprise may make pre-declaration of enterprise income tax payment or enjoy transitional preferential taxation at the tax rate of 15%.

Pursuant to the newly revised Administrative Measures for the Accreditation of High and New Technology Enterprises (高新技術企業認定管理辦法) (the "Administrative Measures") which became effective on 1 January 2016, High and New Technology enterprises, which are recognized in accordance with the Administrative Measures, may apply for the tax preferential policy in accordance with the EIT Law and the Implementation Rules thereof, the Law of PRC Concerning the Administration of Tax Collection (中華人民共和國税收徵收管理法) and Implementing Rules of the Law of the PRC Concerning the Administration of Tax Collection (中華人民共和國税收徵收管理法實施細則). The qualified high-tech enterprises would be taxed at a rate of 15% on EIT. The validity period of High and New Technology enterprises shall be effective for three years from the date of issuance of the certificate of High and New Technology enterprise. After obtaining the High and New Technology enterprise qualification, such enterprise shall file an annual form containing the following: intellectual property rights, scientific and technical personnel, research and development expenses, operating income and other developments in "High and New Technology enterprise management website" before the end of every May. Where a significant change occurred such as change of name or other conditions related to the High and New Technology enterprises identified (eg, separation, merger, restructuring and change of business, etc.), such enterprise should report it to the relevant competent tax authority, which would accredit such enterprise within three months. Upon such accreditation, the High and New Technology enterprise would either remain its qualification or be disqualified. For enterprises undergoing a change of name, the authority would re-issue the certificate with the certificate number and duration of validity remains unchanged.

- Pursuant to the Announcement of the State Administration of Taxation on Several Issues Concerning the Corporate Income Taxes on the Indirect Transfer of Properties by Non-resident Enterprises (關於非居民企業間接轉讓財產企業所得税若干問題的公告) promulgated and with effect from 3 February 2015 ("Circular 7"), where a non-resident enterprise indirectly transfers equities and other properties of a Chinese resident enterprise ("PRC Taxable Properties") to evade its obligation of paying EIT by implementing arrangements that are not for bona fide commercial purpose, such indirect transfer shall be re-identified and recognized as a direct transfer of equities and other properties of the Chinese resident enterprise, in accordance with the provisions of Article 47 of the EIT Law. Section Two, Article Eight of the Circular No.7 was later abolished by the Announcement of the State Administration of Taxation on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source (<國家税務總局關於非居民企業所得税源泉扣繳有關問題的公告>) (the "**Announcement No. 37**"), which was promulgated on 17 October 2017 and became effective on 1 December 2017. PRC Taxable Properties in this announcement include properties of a PRC entity or establishment located in China, real estate in China and an equity investment in a PRC resident enterprise, that are directly held by a non-resident enterprise and proceeds from such transfer shall be subject to EIT in China in accordance with the PRC tax laws. An indirect transfer of PRC Taxable Properties

refers to a transfer by a non-resident company of an equity interest or other similar right or interest in an overseas enterprise (excluding the PRC resident enterprise registered overseas) (the "Overseas Enterprises") that in turn directly or indirectly holds the PRC Taxable Properties, which effectively has the same or a similar effect as a direct transfer of such PRC Taxable Properties. Circular 7 also provides that an indirect transfer of PRC Taxable Properties, which satisfies one of the following conditions, will not be subject to the aforesaid provisions: A non-resident enterprise buys and sells the shares of one same overseas listed company in a public stock exchange; and

- If the non-resident enterprise directly held and transferred PRC Taxable Properties, the proceeds derived thereof would be exempt from EIT under the applicable tax treaty or arrangement.

Value-added Tax

All entities and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of the PRC shall pay VAT in accordance with the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值税暫行條例) (the "Provisional Regulations on VAT") and its implementation rules. The Provisional Regulations on VAT was promulgated by the State Council which became effective on 1 January 1994, amended on 5 November 2008, 6 February 2016 and 19 November 2017. Pursuant to the Provisional Regulations on VAT and its implementation rules, VAT payable is calculated as "output VAT" minus "input VAT". The rate of VAT is usually 17% or 13% in certain limited circumstances depending on the product type. The Ministry of Finance and State Administration of Taxation (the "SAT") published a Circular on Adjusting Value-added Tax Rates (財政部、税務總局關於調整增值税税率的通知) on 4 April 2018 to announce that a taxpayer engages in a taxable sales activity for the VAT purpose or imports goods, the previous applicable tax rates 17% and 11% will be adjusted to 16% and 10% respectively. This Circular has come into force since 1 May 2018.

Export Tax Rebate

According to the Provisional Regulations on VAT and the Notice of Ministry of Finance and the State Administration of Taxation on the Policies of Value-added Tax and Consumption Tax Applicable to Exported Goods and Services (財政部、國家税務總局關於出口貨物勞務增值税和消費税政策的通知) which promulgated on 25 May 2012, and amended on 1 January 2015, goods and services exported by export-oriented enterprises shall be eligible for VAT exemption and refund policies. In accordance with the regulations on the export tax rebate rate, export commodities have different tax rebate rates depending on the different types.

Pursuant to the Measures for the Administration of Tax Refund (Exemption) of Exported Goods (For Trial Implementation) (出口貨物退(免)税管理辦法(試行)) effective on 1 May 2005, for the goods as exported by an exporter on his own or by means of entrustment, except those concerning which there are otherwise provisions, the exporter thereof may, after the declaration of goods export and the conclusion of financial settlement for sales, make a report to the local state taxation bureau for the approval of refund or exemption of his value-added tax (VAT) or consumption tax on the strength of the relevant certificates.

Laws and Regulations Relating to Dividend Distribution

Under the Law of the PRC on Wholly Foreign-Owned Enterprises (中華人民共和國外資企業法), which was promulgated by the National People's Congress of the PRC in 1986 and revised by the Standing Committee of National People's Congress on 31 October 2000 and 3 September 2016, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are also required to allocate at least 10% of their respective accumulated profits after tax each year, if any, to certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of such enterprises. These reserves are not distributable as cash dividends.

According to the EIT Law and its implementing rules, dividends paid to investors of an eligible PRC resident enterprise can be exempted from EIT and dividends paid to foreign investors are subject to a withholding tax rate of 10%, unless relevant tax agreements entered into by the PRC government provide otherwise.

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Incomes (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the "Arrangement") on 21 August 2006. According to the Arrangement, 5% withholding tax rate shall apply to the dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests in the PRC company, and 10% of withholding tax rate shall apply if the Hong Kong resident holds less than 25% of the equity interests in a PRC company.

Pursuant to the Circular on Relevant Issues Relating to the Implementation of Dividend Clauses in Tax Treaties (關於執行稅收協定股息條款有關問題的通知), which was promulgated by the SAT and became effective on 20 February 2009, all of the following requirements shall be satisfied where a fiscal resident of the other party to a tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) owner's equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the 12 months prior to obtaining the dividends, reach a percentage specified in the tax agreement.

According to the Administrative Measures for Non-resident Taxpayers to Enjoy Treatments under Tax Treaties (<非居民納稅人享受稅收協定待遇管理辦法>) (the "**Administrative Measures**"), which was promulgated on 27 August 2015 and came into force on 1 November 2015, if the non-resident taxpayers are qualified for enjoying the favorable tax benefits under the tax arrangements, they could enjoy such benefits of themselves from the tax authority when they or their withholding agents make declarations to the relevant tax authority. Under the Administrative Measures, when the non-resident taxpayers or their withholding agents make declarations to the relevant tax authority, they should deliver the relevant reports and materials to the tax authority and such non-resident taxpayers and withholding agents will be subject to the follow-up management of the tax authority.

Transfer Pricing

According to the EIT Law and the Implementation Regulations for Special Tax Adjustments (Trial) (特別納稅調整實施辦法(試行)) (the "**STA Rules**") effective on 1 January 2008, transactions in respect of the purchase, sale and transfer of products between, amongst others, enterprises under direct or indirect control by the same third party are defined as related party transactions.

According to the EIT Law and STA Rules, related party transactions should comply with the arm's length principle and if the related party transactions fail to comply with arm's length principle results in the reduction of the enterprise's taxable income, the tax authority has the power to make an adjustment following certain procedures.

Pursuant to the Announcement of the State Administration of Taxation on Relevant Matters relating to Improvement of the Filing of Related-Party Transactions and the Management of Contemporaneous Documentation (國家稅務總局關於完善關聯申報和同期資料管理有關事項的公告) effective on 29 June 2016, any resident enterprise subject to audit collection and any non-resident enterprise which has establishments or offices in China and honestly reports and pays enterprise income tax shall, in filing a tax return for the annual enterprise income tax with a tax authority, make related filings with regard to its business transactions with any related party and attach thereto the Annual Report on the Related- party Transactions of Enterprises of the People's Republic of China (2016 version). Enterprises shall prepare contemporaneous documentation based on a tax year, and submit contemporaneous documentation for the related-party transactions according to the requirements of tax authorities.

Pursuant to the Administrative Measures for Special Tax Adjustment and Investigation and Mutual Consultation Procedures (特別納稅調查調整及相互協商程序管理辦法) (the "**STA Measures**") effective on 1 May 2017, the tax authorities exercise special tax adjustment monitoring and management of enterprises via review of the reporting of connected transactions, management of contemporaneous documentation, profit level monitoring and other means. When any enterprises are found to have special tax adjustment risks, they will send a Notice of Tax Matters to the enterprise,

suggesting the existence of a tax risk. An enterprise may adjust and pay taxes at its own discretion when it receives a special tax adjustment risk warning or identifies its own special tax adjustment risks. The tax authorities may also carry out special tax investigation and adjustment in accordance with the relevant provisions in regard to enterprises that adjust and pay taxes at their own discretion.

M&A Rules and Overseas Listings

On 8 August 2006, six PRC governmental and regulatory agencies, including MOFCOM and the CSRC, promulgated the Regulations on Merger and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the "M&A Rules"), a new regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on 8 September 2006 and amended on 22 June 2009.

According to the M&A Rules, if any domestic company, enterprise or natural person merges its affiliated domestic company in the name of a company legally established or controlled by the aforesaid domestic company, enterprise or natural person in foreign countries or regions, it shall be subject to the approval of the MOFCOM. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

UNITED STATES LAWS & REGULATIONS

Businesses operating in the United States are subject to many governmental standards and regulations. The governmental standards and regulations that are expected to be material to our manufacturing operations and product exports into the United States will be those that relate to product safety, environmental protection, export controls and customs and import procedures and are described below.

Import Tariffs and Duties

The United States does not currently impose any duties on mobile handset devices, other than those derived directly or indirectly from Cuba or North Korea. Nor are there provisions of the U.S. laws dealing with fairly priced imports (Sections 201 through 204 of the Trade Act of 1974 (also known as the "safeguard" provision)), antidumping laws, countervailing duty laws, or Section 337, which covers imports that violate U.S. intellectual property laws, that currently limit imports of mobile handset devices.

Pursuant to Section 301 of the Trade Act of 1974, the President is authorised to take all measures necessary to eliminate foreign government practices that are unjustifiable (including actions that violate trade agreements), discriminatory, or unreasonable, and that burden and restrict U.S. commerce. It is possible that in the near future the United States may take other trade-related actions that could affect imports of mobile handset devices, all related to alleged unfair trade practices of China.

On 20 June 2018, President Trump's Office of the United States Trade Representative self-initiated a complaint under Section 301 of the Trade Act of 1974 aimed at a number of Chinese practices related to technology transfer, intellectual property, and innovation. A trade value of $34 billion is covered by this proposed action, which calls for the imposition of an additional *ad valorem* duty of 25 percent on certain imported products from China. The stakes were raised significantly on 10 July 2018, when President Trump announced tariffs of 10 percent on an additional $200 billion in Chinese exports to the United States, and he has announced plans for an additional $200 billion of goods from China to be covered by U.S. tariffs.

However, as advised by our U.S. Legal Advisers, given the Group's products are exported to the customers in the U.S. through shipment on a freight-on-board (FOB) basis or Free Carrier Hong Kong (FCA HK) basis, and thus the Group does not directly import any products into the U.S., the U.S. tariff regulations do not apply directly to the Group. Instead, it is the importer or record who would be responsible for paying the duties.

United States Product Liability Law

Product-liability exposure is a key consideration that every foreign product manufacturer must analyze and consider when doing business in the United States market. In the United States, each of its states has its own laws which generally impose liability on all manufacturers and retailers (and parties in the supply chain) for injuries that result from unsafe, defective and dangerous products sold to consumers. The term "*product liability*" refers to the legal liability of manufacturers and sellers to compensate buyers, users, and even bystanders for damages or injuries suffered because of defects in goods purchased. In addition, United States federal laws and regulations (for example, the Consumer Product Safety Improvement Act of 2008) can obligate manufacturers and retailers (and parties in the supply chain) to remedy product defects, which can include safety recall campaigns.

In the United States, there are two separate and distinct aspects that govern liability with respect to products. The first primary body of law that governs the manufacture, distribution and sale of products is known as product liability law ("**Products Liability Law**"). There is no federal Product Liability Law in the United States. Therefore, the law of each state determines the liability of product manufacturers. While several states have passed comprehensive statutes, most state Product Liability Law is based on common law. Although state law varies, there are many similarities among the jurisdictions. Manufacturers, however, should be aware of the intricacies of the Product Liability Law in the states in which they do business. In application, Products Liability Law governs private litigation of product accidents. It operates *ex post*, meaning it is a body of law that govern after a product accident has already occurred.

Products Liability Law sets out the full range of legal responsibilities of manufacturers, distributors and sellers of products. Parties involved in selling or distributing a product are subject to liability for harm caused by a defect in that product. Generally speaking, any and all entities in the supply chain of a product can potentially be held liable. This includes manufacturers of component parts (at the top of the chain), assembling manufacturers, the wholesalers, and the retail store owners (at the bottom of the chain).

Types of Claims

Product liability claims may be based on breach of warranty, negligence or strict liability. A litigant is not limited to one theory in bringing a lawsuit, but rather can assert any and all theories simultaneously. Further, all of these theories have broad application to a vast array of products — including electrical and electronic products.

Claims based on the breach of an express or implied warranty are generally governed by Article 2 of the Uniform Commercial Code ("**UCC**"), which has been adopted in similar form in every state other than Louisiana. The UCC provides remedies when a product fails to satisfy express representations, is not "*merchantable*," or is unfit for its particular purpose. In the simplest of terms, a warranty is a promise, claim, or representation made about the quality, type, number or performance of a product. In general, the law assumes that a seller always provides some kind of warranty concerning the product. Under the UCC, there are two kinds of warranties: express and implied. An express warranty can be created by a representation by the seller, or by showing a sample of a product to the buyer where the buyer reasonably assumed that a second shipment of the same quality as the first would be provided. An implied warranty, on the other hand, is presumed to exist unless the buyer clearly and unambiguously disclaims it in writing as part of the sales agreement.

Strict products liability is generally the most common cause of action asserted in lawsuits involving allegedly defective products. Strict liability claims do not depend on the degree of care exercised by the defendant because the theory of strict liability focuses on the product defect rather than the manufacturer's conduct. The analysis depends solely on the product and whether it was defective at the time it left the hands of the manufacturer. A product can be defective in its manufacture, that is the product does not conform to design specifications or performance standards, or it deviated in some material way from otherwise identical units of the same product line. A product can also be defective in its design. A product has a design defect when its design or configuration is what makes it unreasonably dangerous. Finally, a product can be defective because it lacks proper warning or instructions. These are generally called failure to warn claims.

With strict products liability, it is irrelevant whether the manufacturer or supplier exercised all due care in the design, manufacture, or marketing of the product; if there is a defect in the product that causes harm, he or she will be liable for it. Thus, strict product liability is liability without fault for an injury proximately caused by a product that is defective and not reasonably safe.

Negligence actions, on the other hand, require a plaintiff to show that (i) the defendant owed the plaintiff a duty of due care, (ii) the defendant breached that duty by furnishing a defective product, and (iii) the defendant's breach caused the plaintiff's injury. The analysis focuses on the acts or omissions of the manufacturer of the product. The duty to exercise reasonable care involves every phase of getting the product to the public. The product must be inspected and tested at appropriate stages in the manufacturing, distribution and selling process. The product must be made from appropriate (safe and non-defective) materials, comply with all applicable rules and regulations, and assembled with appropriate care to avoid against its negligent manufacture. The product's container or packaging must be adequate (and not itself dangerous or defective), and contain appropriate warnings and directions for use. An otherwise non-defective product can be made unsafe by the failure to provide adequate instructions for its safe use.

In a negligence claim, the defendant can be held liable for failing to use due care. Strict liability claims, however, do not depend on the degree of care exercised by the defendant. Strict liability focuses on product defect rather than a manufacturer's conduct. In every claim based on strict liability, the claimant must establish that the product was defective. There are three types of product defects:

- *Design Defects*. A product is defectively designed when both the foreseeable risks presented by the product could have been reduced or avoided by employing an alternative design, and failure to use an alternative design renders the product unreasonably dangerous. Generally, the claimant has the burden of proving that a reasonable alternative design was available at the time of distribution.
- *Manufacturing Defects*. Unlike a design defect, a manufacturing defect does not depend on the design specifications of a product. Instead, a product has a manufacturing defect when it fails to meet its intended design specifications, despite the exercise of due care. The claimant must usually prove that the product was defective when it left the manufacturer's hands. If a defect arises during shipment or storage, a distributor in the chain of commerce can be held liable, just as if the product were defectively manufactured.
- *Warning Defects*. A product contains a warning defect when both the foreseeable risks of the product could have been reduced or avoided by providing reasonable warnings or instructions, and due to the absence of such information, the product is unreasonably dangerous. While most warnings are generated by manufacturers, sellers and distributors must provide warnings when doing so is reasonable. Claimants must prove that adequate warnings or instructions were not provided.

Finally, injured claimants may also bring claims based on fraud or tortious misrepresentation. Tortious misrepresentation is similar to warranty in that it seeks to hold a party liable for misrepresenting a material fact about the product which causes either damage or injury. The rules governing fraud and tortious misrepresentation are generally derived from case law and vary from jurisdiction to jurisdiction.

Available Defenses

Defenses, like the product liability claims themselves, are a matter of state law. Therefore, defenses can vary from jurisdiction to jurisdiction.

- *Contributory Negligence/Comparative Fault.* Under contributory negligence, a claimant is barred from recovery if his own negligence caused or contributed to his injury. However, most jurisdictions have abandoned contributory negligence in favor of comparative fault. Under comparative fault, a claimant's recovery is reduced if his own negligence (or fault) contributed to his injury.
- *Assumption of the Risk.* In some jurisdictions, a claimant may also be barred from recovery if he is aware of a product defect and the accompanying dangers, but uses the product anyway. The assumption of the risk defense is based on what the claimant actually knew, not what a reasonable person would have known.
- *Intervening/Superseding Cause.* If a claimant's injury was caused by the intervening conduct of another and that conduct is also a superseding cause, a defendant may avoid

liability in most jurisdictions. An intervening act is a superseding cause when a manufacturer could not reasonably be expected to protect against things such as: (i) criminal acts; (ii) use of a product in an unforeseeable manner; (iii) alteration of the product; (iv) negligent use; and/or (v) failure to properly maintain a product.

- *State of the Art.* If a manufacturer can establish that a product was manufactured according to the current state of scientific and technical knowledge in the relevant field (that is, the product is "*state of the art*"), that evidence can be used to show the manufacturer acted with due care. State of the art evidence is also relevant to warning issues. Claimants must show that the defendant failed to provide reasonable and adequate warnings in accordance with the current state of medical or scientific knowledge. This evidence may also be key to design defect claims in jurisdictions where the claimant must demonstrate the existence of a safer alternative. However, state of the art evidence is not admissible in every jurisdiction.

Product Safety Laws & Regulations

Several United States federal agencies are responsible for regulations pertaining to electrical and electronic products:

Agency	**Scope**
Consumer Product Safety Commission ("**CPSC**")	Children's products, hazardous substances, labeling of hazardous products, consumer product safety
Customs and Border Protection ("**CBP**")	Country of origin for most imported products
Department of Energy ("**DOE**")	Energy efficiency
Environmental Protection Agency ("**EPA**")	Toxic substances, Energy Star
Federal Communications Commission ("**FCC**")	Radio frequency and digital devices
Federal Trade Commission ("**FTC**")	Labeling, Energy Guide standards, environmental claims

Consumer Product Safety Commission

Another body of law which is applicable to the products we ship to the United States is commonly referred to as "*product safety law*." The law of product safety is regulatory law and is governed primarily by the United States Consumer Product Safety Commission ("**CPSC**"), an administrative agency of the United States federal government that regulates certain classes of products sold to the public.

Consumer Product Safety Act

The Consumer Product Safety Act, entered into law on October 27, 1972 ("**CPSA**"), was enacted to establish the CPSC and define its authority with the purpose of protecting the public against unreasonable risks of injury associated with consumer products, assisting consumer in evaluating the comparative safety of consumer products, developing uniform standards for consumer products, and promoting research and investigation into the causes and prevention of product-related deaths, illnesses, and injuries. Power-related and electrical electronic products fall under its jurisdiction. Product safety law operates *ex ante*, meaning that it seeks to prevent product-caused accidents and diseases before they occur.

Consumer Product Safety Improvement Act of 2008

The Consumer Product Safety Improvement Act of 2008 ("**CPSIA**") was passed by Congress in 2008, and subsequently amended in 2011. The CPSIA constituted a significant overhaul of consumer product safety laws in the United States and was designed to enhance federal and state efforts to improve the safety of all products imported into and distributed in the United States. Products imported into the United States which fail to comply with CPSIA's requirements (such as limits on

lead content) are subject to confiscation and the importer and/or distributor in the United States is subject to civil penalties and fines, as well as possible criminal prosecution. However, while the CPSC works closely with United States customs agents, its jurisdiction does not extend beyond the territorial limits of the United States.

The CPSIA requires every manufacturer or importer of all consumer products that are subject to a consumer product safety rule enforced by the CPSC to issue a general certificate of conformity based on testing of the product and stating that the product complies with the applicable standard, regulation, or ban. Under the CPSIA, a "*general conformity certification*" is required for any consumer product imported into the U.S. that is subject to a consumer product safety rule issued under the CPSA, or a similar rule, standard, regulation, or ban issued by the CPSA or under any statute issued by the CPSC. The requirement applies to all manufacturers and importers of goods. Those parties must test certain products and certify that their products comply with all applicable consumer product safety rules and similar rules, bans, standards, and regulations under any law administered by the CPSC. Such laws include, without limitation, the CPSA, the Flammable Fabrics Act, the Federal Hazardous Substance Act, and the Poison Prevention Act.

The CPSIA specifies that certification must be based on a "*test of each product or a reasonable testing program*." The certificate must accompany the product or shipment of products, and a copy must be furnished to each distributor or retailer. The certification must also be furnished to United States Customs. And, if requested by the commission, a copy must be furnished to the CPSC. Where there is more than one manufacturer or importer for a product, the party providing the certification should be the importer for imported products.

Customs and Border Protection

The Customs and Border Protection agency requires all products imported into the United States to confirm to certain "*Country of Origin Marking*" regulations. These regulations require that every article of foreign origin (or its container) imported into the United States be marked in a conspicuous place as legibly, indelibly, and permanently as the nature of the article (or its container) will permit, in such a manner as to indicate to an ultimate purchaser in the United States, the English name of the country of origin of the article at the time of importation.

United States Department of Energy

The United States Department of Energy enacted the Energy Policy and Conservation Act ("**EPCA**") for the promotion of energy conservation. With respect to electrical and electronic products, the EPCA prescribes test procedures to measure energy efficiency, energy use, water use, or estimated annual operating cost of a covered product during a representative annual use cycle or period of use as well as charging the Federal Trade Commission with the responsibility of establishing labeling requirements. Under the EPCA, it is unlawful for a manufacturer or private labeler to distribute into commerce any new product covered under the EPCA, unless the product is labeled in accordance with the rules and it conforms to a specified applicable energy conservation standard, except to the extent that the product is covered by a regional standard that is more stringent than the base national standard; remove or make required labeling illegible; knowingly sell a product that violates regional standards.

Environmental Protection Agency

Toxic Substance Control Act

The Toxic Substance Control Act ("**TSCA**") provides the United States Department of Energy and the Environmental Protection Agency ("**EPA**") with authority to require reporting, record-keeping and testing requirements, and restrictions relating to chemical substances and/or mixtures. Certain substances are generally excluded from the TSCA, including, among others, food, drugs, cosmetics and pesticides.

Mercury-Containing and Rechargeable Battery Management Act

The purpose of the Mercury-Containing and Rechargeable Battery Management Act ("**Act**") is to phase out the use of mercury in batteries and facilitate the collection and recycling of nickel-cadmium rechargeable, small sealed lead-acid rechargeable, and other regulated batteries. Regulated batteries include those containing cadmium and/or lead electrodes or other batteries subject to a determination by the Administrator of the EPA. The Act requires that regulated batteries are easily removable from rechargeable consumer products or sold separately. In addition, the Act establishes

labeling requirements for regulated batteries and rechargeable products without easily removable batteries, including a three chasing arrows or comparable recycling symbol, as well as statements dependent on the battery and product type. The Act prohibits the sale of alkaline-manganese batteries to which mercury has been intentionally introduced, except for alkaline-manganese button cells, which are limited to 25 milligrams of mercury per button cell; zinc-carbon batteries containing intentionally introduced mercury; and button cell mercuric-oxide batteries.

Federal Communications Commission

The Federal Communications Commission ("**FCC**") regulates all communications by radio, television, wire, satellite, and cable in the United States. The FCC's mandate is to regulate private sector telecommunications in the public interest. They do this by establishing technical regulations for transmitters and other devices that generate or use radio frequency ("**RF**") energy to minimize their potential for causing interference. The FCC establishes procedures for products that use or emit radio frequency energy.

Electronics create radio frequency energy by themselves, either intentionally (e.g. Wi-Fi enabled tablets, mobile phones and global positioning system ("**GPS**") receivers) or unintentionally (e.g. power supplies). Therefore, the FCC scope of regulations also apply to most consumer electronics and electrical equipment, and not only products intentionally transmitting radio waves. In general, there are two classifications related to electronics set by the FCC:

- *Intentional Radiators* - An "*intentional radiator*" is a device that is intended to emit radio energy. This includes, among many other products, mobile phones, tablet PCs, GPS receivers, Wi-Fi routers, "*walkie-talkies*" and Bluetooth headsets — essentially any item that transmits radio waves. Products that fall within one, or more, of the following definitions, are likely classified as an intentional radiator: (i) radio enabled, (ii) Wi-Fi-enabled, (iii) Bluetooth enabled, and/or (iv) broadcast equipment. Compliance with FCC regulations is mandatory when importing products classified as intentional radiators, and must therefore undergo an equipment authorization procedure.
- *Unintentional Radiators* - An "*unintentional radiator*" is, in 47 CFR 15.3, defined as any electrical device "*operating at over 9000 pulses per second (9 kHz) and using digital techniques*". This definition includes most consumer electronics containing a chip, such as USB enabled devices, even if not equipped with a Wi-Fi or Bluetooth transmitter.

There are various certification procedures put forth by the FCC. The certification processes are Verification, Declaration of Conformity, and Certification. Verification is a self-approval process where any capable testing facility can test a device to ensure the product complies with appropriate requirements. Declaration of Conformity requires a product be tested by an accredited, FCC recognized laboratory to ensure that the product complies with the requirements. Certification is an equipment authorization issued by an independent entity recognized by the FCC to approve products within their scope of recognition. These entities, known as Telecommunication Certification Bodies, approve products to the FCC requirements. Products approved under the Certification process are identified by FCC identification number.

The supplier is, for certain products, allowed to issue an FCC Verification of Compliance based on their own compliance testing. As said, this is limited to specific products, and not applicable to all items. Many other products must pass an equipment authorization procedure performed by an authorized third party. Before importing electronics to the United States, manufacturers need to confirm which Equipment authorization procedure applies to its product(s). Generally speaking, third party testing is not entirely unnecessary, even a product is not required to be submitted to a third party, and unless the manufacturer has the expertise and equipment to verify that the product is compliant with all applicable FCC regulations, it is best practice to engage a third-party testing company do it for the manufacturer.

It is important to understand that an FCC Declaration of Conformity, or FCC Verification of Conformity, only applies to a specific device, and not the manufacturer itself. Therefore, importers must not only verify that the manufacturer/supplier has an extensive compliance track record, but also that the specific products to be imported are each documented. Thus, the compliance rate within a supplier/manufacturer may also vary. While some manufacturers can show extensive documentation, others can only show certificates for one or a few products. A Declaration of Conformity is only valid to the specific component set up used at the time of testing. The radiation level can be affected, to a varying degree, if the supplier decides to change components.

Most FCC regulated products must also comply with the applicable United States labeling requirements. As with the certification procedure, different labelling requirements apply depending on the product, and whether its classified as an intentional or unintentional radiator. Typically, the FCC label is permanently affixed to the product unit (i.e. no stickers or temporary labels). However, recent changes to this rule will allow businesses to label the items digitally (e.g. in the software), rather than printing the FCC logo, or compliance statement, on the product unit.

Finally, the FCC imposes significant non-compliance penalties for failures to comply with its requirements, which may include, without limitation, cash penalties, cease and desist orders, fines and/or imprisonment. The company importing the items is responsible to ensure compliance with all applicable regulations. The only way to be sure that the items comply with all applicable FCC rules is by submitting samples to a third-party testing company, which is, as specified above, also mandatory when importing wide range of products.

Federal Trade Commission

The Federal Trade Commission Act (the "**FTC Act**") broadly prohibits unfair or deceptive acts or practices in or affecting commerce. The Federal Trade Commission ("**FTC**") will find deception if, either by the inclusion or exclusion of information, it is likely to mislead consumers acting reasonably under the circumstances, or affect the consumer's choice or conduct, thereby leading to injury. The FTC Act allowed the FTC to enact several related acts and regulations intended to prohibit unfair or deceptive acts or practices.

Other United States Laws & Requirements

State Regulatory Frameworks

In addition to the United States' federal regulatory framework discussed above, a growing number of areas are covered by both state and federal statutes, including consumer protection, employment, and food and drug regulation. Generally, state laws give way to stricter federal laws that address the same issue. When a state's Governor signs the bill, it becomes a state law. Once a law has been enacted by a state, it is the responsibility of the appropriate state agency to create the regulations necessary to implement the law. However, in the United States, some state laws and regulations are enacted which are more stringent that the federal laws. These laws include regulations for product labeling, packaging, and chemical restrictions, among other issues. The State of California is heavily regulated for many consumer products.

Finally, it is important to understand that the foregoing is a summary provided for general informational purposes and is not exhaustive or a complete description of all of the laws, rules and regulations that may be applicable to a particular product being imported into the United States. Depending on the nature of the product, various other United States laws, including without limitation, the CPSA, the Poison Prevention Act, as well as various other standards, guides, limitations, and bars, including without limitation, the Ban of Extremely Flammable Contact Adhesives, the Bans of Consumer Patching Compounds and Artificial Emerizing Materials Containing Respirable Free-Form Asbestos, the restrictions and limitations regarding Lead content, the Small Parts Regulation Business Guidance, the Bans of Butyl Nitrite and Volatile Alkyl Nitrite, and the CPSC's Staff's Strong Sensitizer Guidance Document.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "**Dodd-Frank Act**") mandated that the United States Securities and Exchange Commission (the "**SEC**") issue a rule requiring companies to disclose whether they source certain minerals — tin, tantalum, tungsten and gold — from Central Africa (the Democratic Republic of Congo and adjoining countries) to dissuade industries from purchasing minerals that had been mined under conditions of violence and armed conflict.

Disclosing the Use of Conflict Minerals

In 2010, the United States Congress ("**Congress**") passed the Dodd-Frank Act, which directs the Commission to issue rules requiring certain companies to disclose their use of conflict minerals if those minerals are "*necessary to the functionality or production of a product*" manufactured by those companies. Under the Dodd-Frank Act, those minerals include tantalum, tin, gold or tungsten. Congress enacted Section 1502 of the Dodd-Frank Act because of concerns that the exploitation and trade of conflict minerals by armed groups is helping to finance conflict in the region identified as

the Democratic Republic of Congo and adjoining countries (the "**DRC**") and is contributing to an emergency humanitarian crisis. Section 1502 of the Dodd-Frank Act amends the Securities and Exchange Act of 1934, as amended, to add Section 13(p). The final rule applies to a company that uses minerals including tantalum, tin, gold or tungsten if:

- The company files reports with the SEC under the Exchange Act.
- The minerals are "*necessary to the functionality or production*" of a product manufactured or contracted to be manufactured by the company.

The final rule requires a company to provide the disclosure on a new form to be filed (Form SD) with the SEC. If any conflict minerals are necessary to the functionality or production of a product manufactured by a company or contracted by a company to be manufactured and are required to be reported in the calendar year covered by the specialized disclosure report, the company must conduct in good faith a reasonable country of origin inquiry regarding those conflict minerals that is reasonably designed to determine whether any of the conflict minerals originated in the DRC or an adjoining country, or are from recycled or scrap sources.

Based on its reasonable country of origin inquiry, if a company determines that its necessary conflict minerals did not originate in the DRC or an adjoining country or did come from recycled or scrap sources, or if it has no reason to believe that its necessary conflict minerals may have originated in the DRC or an adjoining country, or if based on its reasonable country of origin inquiry a company reasonably believes that its necessary conflict minerals did come from recycled or scrap sources, the company must, in the body of its specialized disclosure report under a separate heading entitled "*Conflict Minerals Disclosure*," disclose its determination and briefly describe the reasonable country of origin inquiry it undertook in making its determination and the results of the inquiry it performed. Also, the company must disclose this information on its publicly available Internet website and, under a separate heading in its specialized disclosure report entitled "*Conflict Minerals Disclosure*," provide a link to that website.

Alternatively, based on its reasonable country of origin inquiry, if a company knows that any of its necessary conflict minerals originated in the DRC or an adjoining country and are not from recycled or scrap sources, or has reason to believe that its necessary conflict minerals may have originated in the DRC or an adjoining country and has reason to believe that they may not be from recycled or scrap sources, the company must exercise due diligence on the source and chain of custody of its conflict mineral, that conforms to a nationally or internationally recognized due diligence framework, if such a framework is available for the conflict mineral. If, as a result of that due diligence, a company determines that its conflict minerals did *not* originate in the DRC or an adjoining country or the registrant determines that its conflict minerals *did* come from recycled or scrap sources, a Conflict Minerals Report is not required, but the company must disclose its determination and briefly describe, in the body of its specialized disclosure report under a separate heading entitled "*Conflict Minerals Disclosure*," the reasonable country of origin inquiry and the due diligence efforts it undertook in making its determination and the results of the inquiry and due diligence efforts it performed. Also, a company must disclose this information on its publicly available Internet website and, under a separate heading in its specialized disclosure report entitled "*Conflict Minerals Disclosure*," provide a link to that website. Otherwise, the company must file a Conflict Minerals Report as an exhibit to its specialized disclosure report and provide that report on its publicly available Internet website. Under a separate heading in its specialized disclosure report entitled "*Conflict Minerals Disclosure*," the company must disclose that it has filed a Conflict Minerals Report and provide the link to its Internet website where the Conflict Minerals Report is publicly available.

MEXICAN LAWS AND REGULATIONS

Based on the current business model, in which the Company does not have any presence nor conducts any business in Mexico, and in terms of the current applicable laws in Mexico, Mexican laws are not applicable to the Company.