

REGULATORY OVERVIEW

OVERVIEW

This section sets out a summary of the laws and regulations that are currently applicable and are material to the Group’s business and operations in Hong Kong and the PRC.

I. THE LAWS AND REGULATIONS OF HONG KONG

LAWS AND REGULATIONS IN RELATION TO LABOUR, HEALTH AND SAFETY

Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong) (the “Factories and Industrial Undertakings Ordinance”)

The Factories and Industrial Undertakings Ordinance provides for the safety and health protection to workers in an industrial undertaking. Under the Factories and Industrial Undertakings Ordinance, it is the duty of a proprietor (including person for the time being having the management or control of the business carried on in such industrial undertaking and also the occupier of any industrial undertaking) of an industrial undertaking to take care of, so far as is reasonably practicable, the health and safety at work of all persons employed by him at the industrial undertaking. The duties of a proprietor extend to include:

- providing and maintaining plant and work system that do not endanger safety or health;
- making arrangements for ensuring safety and health in connection with the use, handling, storage and transport of articles and substances;
- providing all necessary information, instructions, training and supervision for ensuing safety and health;
- maintain the workspace in a condition that is safe and without risks to health, providing and maintaining safe access to and egress from the workplaces; and
- providing and maintaining a safe and healthy working environment.

A proprietor of an industrial undertaking who contravenes any of these duties commits an offence and is liable to a fine of HK\$500,000. A proprietor who contravenes any of these duties wilfully and without reasonable excuse commits an offence and is liable to a fine of HK\$500,000 and to imprisonment for six months.

Matters regulated under the subsidiary regulations of the Factories and Industrial Undertakings Ordinance including the Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong), include:

- the prohibition of employment of persons under 18 years of age (save for certain exceptions);
- the maintenance and operation of hoists;
- the duty to ensure safety of the workplaces;
- prevention of falls;
- safety of excavations;

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- the duty to comply with miscellaneous safety requirements; and
- provisions of first aid facilities.

Non-compliance with any of these rules constitutes an offence and different levels of penalty will be imposed and a contractor guilty of the relevant offence could be liable to a fine of up to HK\$200,000 and to imprisonment for 12 months.

In addition, Factories and Industrial Undertakings (Lifting Appliances and Lifting Gear) Regulations (Chapter 59J of the Laws of Hong Kong) (the “**Lifting Appliances and Lifting Gear Regulations**”) regulates the safety of lifting appliances used at construction sites. It sets out the requirements with respect to the construction, inspection, testing, thorough examination, operation, erection, dismantling and alteration of lifting appliances, including cranes. Pursuant to the Lifting Appliances and Lifting Gear Regulations, the owner of the lifting appliance shall take appropriate precautions to ensure its stability before the appliance is used at or moved in an industrial undertaking. The owner of a crane shall ensure that the crane can only be operated by a person who (i) has attained the age of 18 years; (ii) holds a valid certificate issued by the Construction Industry Council or any other person specified by the Commissioner for Labour; and (iii) in the opinion of the owner, is competent to operate the crane by virtue of his experience. Different levels of penalty are imposed for contraventions of the Lifting Appliance and Lifting Gear Regulations and any owner who contravenes the provisions could, depending on the offence, be liable to a fine of up to HK\$200,000, or be liable to a fine of up to HK\$200,000 and imprisonment for 12 months.

Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) (the “Occupational Safety and Health Ordinance”)

The Occupational Safety and Health Ordinance provides for the safety and health protection to employees in workplace, both industrial and non-industrial.

Employers must as far as reasonably practicable ensure the safety and health in their workplaces by:

- providing and maintaining plant and work systems that are safe and without risks to health;
- making arrangements for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;
- providing all necessary information, instructions, training and supervision for ensuring safety and health;
- as regards any workplace under the employer’s control:
 - i. maintaining the workplace in a condition that is safe and without risks to health; and
 - ii. providing and maintaining means of access to and egress from the workplace that are safe and without any such risks; and
- providing and maintaining a working environment for the employees that is safe and without risks to health.

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Failure to comply with any of the above requirements constitutes an offence and the employer is liable on conviction to a fine of HK\$200,000. An employer who fails to do so intentionally knowingly or recklessly commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for six months.

Further, the Commissioner for Labour may, at his discretion, issues improvement notice against non-compliance of this ordinance and/or suspension notice against activity or condition of workplace which may create imminent risk of death or serious bodily injury. Failure to comply with such improvement notice or suspension notice without reasonable excuse constitutes an offence punishable by a fine of HK\$200,000 and HK\$500,000 respectively and to imprisonment for 12 months. In case of the offender knowingly and intentionally continuing the contravention, a daily fine of HK\$50,000 may also be imposed.

Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (the “Employees’ Compensation Ordinance”)

The Employees’ Compensation Ordinance establishes a no-fault and non-contributory employee compensation system for work injuries and lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases.

Under the Employees’ Compensation Ordinance, if an employee sustains an injury or dies as a result of an accident arising out of and in the course of his employment, his employer is in general liable to pay compensation even if the employee might have committed acts of faults or negligence when the accident occurred. Similarly, an employee who suffers incapacity arising from an occupational disease is entitled to receive the same compensation as that payable to employees injured in occupational accidents.

Pursuant to section 15 of the Employees’ Compensation Ordinance, an employer must notify the Commissioner for Labour of any work accident by submitting Form 2 (within 14 days for general work accidents and within 7 days for fatal accidents), irrespective of whether the accident gives rise to any liability to pay compensation. If the occurrence of such accident was not brought to the notice of the employer or did not otherwise come to his knowledge within such periods of 7 to 14 days (as the case may be), then such notice shall be given no later than 7 days or, as may be appropriate, 14 days after the occurrence of the accident was first brought to the notice of the employer or otherwise came to his knowledge.

Pursuant to section 24 of the Employees’ Compensation Ordinance, a principal contractor shall be liable to pay compensation to subcontractors’ employees who are injured in the course of their employment to the subcontractor. The principal contractor is, nonetheless, entitled to be indemnified by the subcontractor who would have been liable to pay compensation to the injured employees. Such employees are required to serve a written notice on the principal contractor before making any claim or application against such principal contractor.

Pursuant to section 40 of the Employees’ Compensation Ordinance, all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees’ Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees). Where a principal contractor has undertaken to perform any construction work, it may take out an insurance policy for an amount not less than HK\$100 million per event (where the number of employees in relation to who the policy is in force does not exceed 200) and not less than HK\$200 million per event (where the number of employees in relation to

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whom the policy is in force exceeds 200) to cover his liability and that of his subcontractor(s) under the Employees’ Compensation Ordinance and at common law.

An employer who fails to comply with the Employees’ Compensation Ordinance to secure an insurance policy commits an offence and is liable on conviction upon indictment to a fine at level 6 (currently at HK\$100,000) and to imprisonment for two years and on a summary conviction to a fine at level 6 (currently at HK\$100,000) and to imprisonment for one year.

Employment Ordinance (Chapter 57 of the Laws of Hong Kong) (the “Employment Ordinance”)

Pursuant to section 43C of the Employment Ordinance, if any wages become due to the employee who is employed by a subcontractor on any work which the subcontractor has contracted to perform and such wages are not paid within the period specified in the Employment Ordinance, such wages shall be payable by the principal contractor and/or every superior subcontractor (where applicable) jointly and severally. A principal contractor’s and superior subcontractor (where applicable) liability shall be limited (i) to the wages of an employee whose employment relates wholly to the work which the principal contractor has contracted to perform and whose place of employment is wholly on the site of the building work; and (ii) to the wages due to such an employee for two months (such months shall be the first two months of the period in respect of which the wages are due).

Pursuant to section 43D of the Employment Ordinance, an employee who has outstanding wage payments from a subcontractor must serve a written notice on the principal contractor within 60 days after the wage due date. A principal contractor and superior subcontractor (where applicable) shall not be liable to pay any wages to the employee of the subcontractor if that employee fails to serve a notice on the principal contractor.

Upon receipt of such notice from the relevant employee, a principal contractor shall, within 14 days after receipt of the notice, serve a copy of the notice on every superior subcontractor to that subcontractor (where applicable) of whom he is aware. A principal contractor who without reasonable excuse fails to serve notice on the superior subcontractors shall be guilty of an offence and shall be liable on conviction to a fine of up to HK\$50,000.

Pursuant to section 43F of the Employment Ordinance, if a principal contractor or superior subcontractor pays to an employee any wages under section 43C of the Employment Ordinance, the wages so paid shall be a debt due by the employer of that employee to the principal contractor or superior subcontractor, as the case may be. The principal contractor or superior subcontractor may either (i) claim contribution from every superior subcontractor to the employee’s employer or from the principal contractor and every other such superior subcontractor as the case may be, or (ii) deduct by way of set-off the amount paid by him from any sum due or may become due to the subcontractor in respect of the work that he has sub-contracted.

Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong) (the “Occupiers Liability Ordinance”)

The Occupiers Liability Ordinance regulates the obligations of a person occupying or having control of premises on injury resulting to persons or damage caused to goods or other property lawfully on the land.

The Occupiers Liability Ordinance imposes a common duty of care on an occupier of premises to take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

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Immigration Ordinance (Chapter 115 of the Laws of Hong Kong) (the “Immigration Ordinance”)

Pursuant to section 38A of the Immigration Ordinance, a construction site controller (i.e. the person who has control over or is in charge of a construction site) should take all practicable steps to (i) prevent having illegal immigrants from being on site; or (ii) prevent illegal workers who are not lawfully employable from taking employment on site.

Where it is proved that (i) an illegal immigrant was on a construction site; or (ii) such illegal worker who is not lawfully employable took employment on a construction site, the construction site controller commits an offence and is liable to a fine of HK\$350,000.

Minimum Wage Ordinance (Chapter 608 of the laws of Hong Kong) (the “Minimum Wage Ordinance”)

The Minimum Wage Ordinance provides for a prescribed minimum hourly wage rate (currently at HK\$34.5) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance. Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

LAW AND REGULATIONS IN RELATION TO LICENSING

Contractor licensing Regime

The Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) (“**Buildings Ordinance**”) and its subsidiary regulations provide for the planning, design and construction of buildings, including as to authorisation and registration of relevant persons, and building safety requirements.

There are three contractor’s registers under the current contractors registration system, namely (i) the general building contractors’ register; (ii) the specialist contractors’ register; and (iii) the minor works contractors’ register, being kept by the Director of Buildings Department (“**Building Authority**”). Registered general building contractors may carry out general building works and street works which do not include any specialised works designated for registered specialist contractors. Registered Minor Works Contractors may carry out such minor works belonging to the class, type and item specified in the register for which they are registered.

For any works and ancillary services where an entity is involved as a subcontractor, if the principal contractor is registered with the Buildings Department under the appropriate category to supervise the works and liaise with the Building Authority, the entity itself is not required to obtain the same requisite licences, permits and approval for its operation and business except the business registration.

Minor works control system

(i) Minor works registration regime

Under the minor works control system (the “**MWCS**”) implemented by the Buildings Department, a total of 126 items of building works have been included as minor works subject to the control under the MWCS. Those minor works are categorised into three classes according to their nature, scale, complexity and risk to safety: Class I (total of 44 items), Class II (total of 40 items) and Class III (total of 42 items).

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Class I comprises more complicated minor works and requires higher technical experience and more stringent supervision, and thus requires the appointment of a prescribed building professional (the “**Building Professional**”) (such as an authorised person and where necessary, may include a Registered Structural Engineer and/or a registered geotechnical engineer) and a prescribed registered contractor.

Class II comprises works of a lower complexity while Class III comprises common household minor works. Class II and Class III can be carried out by a registered contractor (which can be a registered general building contractor, a registered specialist contractor registered under the category of demolition works/site formation works/foundation works/ground investigation field works or a registered minor works contractor) without the involvement of a Building Professional.

Under each class of minor works, it will be further sub-divided into different types and items that correspond to the specialisation of works in the industry:

- i. Type A – alteration and addition works;
- ii. Type B – repair works;
- iii. Type C – works relating to signboards;
- iv. Type D – drainage works;
- v. Type E – works relating to structures for amenities;
- vi. Type F – finishes works; and
- vii. Type G – demolition works.

The size, location and respective requirements of each item of minor works are set out in Schedule 1 to the Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong) (“**B(MW)R**”).

There are two types of Registered Minor Work Contractors, namely Registered Minor Works Contractors (Individual) (“**RMWCs(Ind)**”) and Registered Minor Works Contractors (Company) (“**RMWCs(Co)**”). A RMWC(Ind) is a minor work contractor who is registered under Section 10(1)(a) of the B(MW)R in the name of an individual self-employed worker and is only allowed to carry out class III minor works. A RMWC(Co) is a minor work contractor who is registered under Section 10(1)(b) of the B(MW)R in the name of a company (including corporations, sole proprietorship and partnership) for carrying out various types and classes of minor works.

(ii) Requirements for registration as an RMWC(Co)

Pursuant to section 12(5) of the B(MW)R, the application for registration as a RMWC(Co) is subject to the following requirements:

- appropriate qualifications and experience of at least one of the applicant’s directors;
- the applicant has access to plants and resources;
- if the applicant is a corporation, its management structure is adequate;

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- appropriate qualifications and experience of at least one of the persons appointed by the applicant to act for the applicant for the purposes of the Buildings Ordinance and his ability to understand the minor works under application through relevant experience and a general knowledge of the basic statutory requirements; and
- the applicant is suitable for registration in the register.

Pursuant to section 12(6) of the B(MW)R, in deciding whether the applicant is suitable for registration in the register, the following factors will be taken into account:

- whether the applicant has any criminal record in respect of any offence under the Laws of Hong Kong relating to the carrying-out of any building works; and
- whether any disciplinary order has been made against the applicant.

In considering each application, the Building Authority will give regard to the qualifications, experience and suitability of the following key personnel of the applicant:

- a minimum of one person appointed by the applicant to act for the applicant for the purposes of the Buildings Ordinance hereinafter referred to as the Authorised Signatory (the “AS”); and
- for a corporation – a minimum of one director from the board of directors of the applicant, hereinafter referred to as the Technical Director (the “TD”), who is authorised by the board to:
 - i. have access to plants and resources;
 - ii. provide technical and financial support for the execution of minor works; and
 - iii. make decisions for the company and supervise the AS and other personnel for the purpose of ensuring that the works are carried out in accordance with the Buildings Ordinance.

A suitable person appointed by the board of directors is eligible to act as the AS, whereas the TD must be a director appointed under the Companies Ordinance and appointed by the board of directors to perform the role of TD.

A RMWC(Co) is required to suspend all the minor works immediately if there is no AS appointed to act for the contractor for the purposes of the Buildings Ordinance. Similarly, when there is no TD acting for the contractor, the contractor should apply for appointment of replacement of TD within a reasonable period of time. Before the AS/TD ceases to act for the contractor, apart from giving the Building Authority a prior notice, the contractor/AS/TD should provide necessary measures to ensure the safety and hygiene condition of the site during the period of suspension of works and should liaise with the project authorised person, Registered Structural Engineer or registered geotechnical engineer selected by the Building Authority in this regard where applicable.

A registration is valid for a period of three years. Under section 14(2)(c) of the B(MW)R, a RMWC(Co) should apply to the Building Authority for renewal of registration not earlier than four months and not later than 28 days prior to the date of expiry of the registration.

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If the contractor has made an application for renewal within the statutory time limit and pays the renewal fee, its registration will continue to be in force until its application for renewal is finalised by the Building Authority.

(iii) Liability under the MWCS

Under section 13 of the Buildings Ordinance, a registered contractor or the director, officer or person appointed by the registered contractor to act on his behalf for the purposes of the Buildings Ordinance who has been convicted by any court of an offence relating to building works or street works, has been negligent or has misconducted himself in buildings works or street works or has failed to discharge any of the specified duties is subject to inquiry by the disciplinary board. The disciplinary board may, among others, order that (i) the name of the registered contractor or the name of the director, officer or person be removed from the relevant register, either permanently or for such period as the disciplinary board thinks fit; (ii) the registered contractor or the director, officer or person be fined a sum up to HK\$250,000; and (iii) the registered contractor or the director, officer or person be reprimanded.

If any building works have been or are being carried out in such a manner as, in the opinion of the Building Authority, will cause or will be likely to cause a risk of injury or damage to property, an order may be served under section 24A of the Buildings Ordinance for ceasing the constitution of such a risk. The Building Authority may require a person to demolish, remove or alter any "minor works" commenced under the simplified requirements that have been or are being carried out in contravention of any provisions of the Buildings Ordinance. Any person who fails to comply with such order will commit an offence and shall be liable on conviction to a fine of up to HK\$50,000 and to imprisonment for up to 3 months and to a fine of up to HK\$5,000 for each day if the offence is continuing.

Subcontractor Registration Scheme

Subcontractors, who are involved in, among others, window fabrication and installation in Hong Kong, may apply for registration under the Subcontractor Registration Scheme (the "SRS") managed by the Construction Industry Council. The SRS covers 52 trades including 11 civil and structural trades, 11 finishing trades, 22 electrical and mechanical (E&M) trades and eight supporting services trades. The 52 trades further branch into further specialties, including aluminium windows/louvres and curtain walls etc. Subcontractors may apply for registration on the SRS in one or more trades.

Where a contractor is to sub-contract or sub-let part of the public works involving trades available under the Primary Register (a list of companies registered in accordance with the Rules and Procedures for the Primary Register of the SRS), he shall engage all subcontractors (whether nominated, specialist or domestic) who are registered under the relevant trades in the Primary Register. Should the subcontractors further sub-contract (irrespective of any tier) any part of the public works sub-contracted to them involving trades available under the Primary Register, the contractor shall ensure that all subcontractors (irrespective of any tier) are registered under the relevant trades in the Primary Register.

Application for registration under the Primary Register of the SRS is subject to the following entry requirements:

- completion of at least one job within five years as a principal contractor/subcontractor in the areas which it applies or to have acquired comparable experience by itself/its proprietors, partners or directors within the last five years;

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- listing on one or more government registration schemes operated by policy bureaus or department of the government relevant to the trades and specialties for which registration is sought;
- the applicant or its proprietor, partner or director having been employed by a Registered Subcontractor for at least five years with experience in the trade/specialty applying for and having completed all the modules of the project/management training series for subcontractors (or equivalent) conducted by the Construction Industry Council; or
- the applicant or its proprietor, partner or director having registered as registered skilled worker under the Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong) for the relevant trade/speciality with at least 5 years’ experience in the trade/speciality applying for and having completed the Senior Construction Workers Trade Management Course (or equivalent) conducted by the Construction Industry Council.

A registration is due for renewal every three or five years. A Registered Subcontractor shall apply for renewal within three months before the expiry date of its registration by submitting an application to the Construction Industry Council in specified format providing information and supporting documents as required showing compliance with the entry requirements. An application for renewal shall be subject to approval by the management committee which oversees the SRS (the “**Management Committee**”). If some of the entry requirements covered in an application can no longer be satisfied, the Management Committee of the Construction Industry Council may give approval for renewal based on those trades and specialties where the requirements are met.

A Registered Subcontractor shall observe the Codes of Conduct for Registered Subcontractor (Schedule 8 of the Rules and Procedures for the Primary Register of the Subcontractor Registration Scheme) (the “**Codes of Conduct**”). Failing to comply with the Codes of Conduct may result in regulatory actions taken by the Management Committee.

The circumstances pertaining to a registered subcontractor that may call for regulatory actions include but not limited to:

- supply of false information when making an application for registration, renewal of registration or inclusion of additional trades;
- failure to give timely notification of changes to the registration particulars;
- serious violations of the registration rules and procedures;
- convictions of senior management staff (including but not limited to proprietors, partners or directors) for bribery or corruption under the Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong);
- wilful misconducts that may bring the SRS into serious disrepute;
- civil awards/judgments in connection with the violation of or convictions under the relevant section of the Mandatory Provident Fund Schemes Ordinance;
- convictions under the Factories and Industrial Undertakings Ordinance or Occupational Safety and Health Ordinance in relation to serious construction site safety incidents resulting in one or more of the following consequence:

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- i. loss of life; or
- ii. serious bodily injury resulting in loss or amputation of a limb or had caused or was likely to cause permanent total disability;
- conviction of five or more offences under the Factories and Industrial Undertakings Ordinance and/or Occupational Safety and Health Ordinance each arising out of separate incidents in any 6 months period (according to the date of committing the offence but not the date of conviction), committed by the registered subcontractor at each of a construction site under a contract; and
- convictions for employment of illegal workers under the Immigration Ordinance; or late payment of workers’ wages and/or late payment of contribution under the Mandatory Provident Fund Schemes Ordinance over 10 days with solid proof of such late payment of wages and/or contribution.

LAWS AND REGULATIONS IN RELATION BUILDING WORK UNDERTAKEN

Buildings Ordinance

Under the Buildings Ordinance, carrying-out large scale building works is subject to obtaining approval and consent from the Buildings Department prior to the commencement of work. For minor works, the B(MW)R provides for a simplified mechanism for carrying out such works without prior approval by the Buildings Department.

Projects involving curtain walls

Projects involving curtain walls are treated as large-scale projects requiring prior approval of the plans. Pursuant to the “Practice Note for Authorised Persons, Registered Structural Engineers and Registered Geotechnical Engineers – Building Approval Process (ADM-19)” issued by the Buildings Department, to streamline the approval process for building works, applications for approval of plans and consent for the commencement of curtain wall or cladding works may be concurrently applied for if the following criteria are met:

- (a) The works do not involve foundation works, nor works with significant geotechnical content;
- (b) The works do not entail precautionary works nor other safety measures which are required to be completed to the satisfaction of the Building Authority prior to the commencement of the proposed works;
- (c) All the plans and documents prescribed under regulation 8 of the Building (Administration) Regulations are submitted for approval; and
- (d) All the requisite supporting information/documents for the consent application are submitted. For curtain wall works, compliance certificates and test reports as required under “Practice Note for Authorised Persons, Registered Structural Engineers and Registered Geotechnical Engineers – Curtain Wall, Window and Window Wall Systems (APP-37)” may be submitted prior to the application for an occupation permit.

Together with the relevant building plans, a supervision plan must be lodged with the Building Authority by the authorised person (being a person who is registered as an architect,

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an engineer or surveyor with the Buildings Department) prior to or at the same time as the application for the first consent for commencement of building works. The supervision plan must comply with the current “Technical Memorandum for Supervision Plans” (“**Technical Memorandum**”) issued by the Secretary for Development under section 39A of the Buildings Ordinance. The Technical Memorandum supplements the provisions of the Buildings Ordinance governing the supervision of building works and street works, and sets out the principles, requirements and operation of supervision plans.

The registered general building contractor, registered specialist contractor and Registered Minor Works Contractor appointed in respect of building works shall, during the carrying out thereof, give continuous supervision thereto to ensure that the building works, are carried out in accordance with the provisions of the Buildings Ordinance and regulations and with the plans approved in respect thereof and with any order made or condition imposed, pursuant to any provision of the Buildings Ordinance or regulations in that behalf, by the Building Authority and the supervision plan prepared in compliance with the Technical Memorandum.

Design requirements for curtain walls

Curtain walls have to be designed to meet the specific requirements set out in regulation 43 of the Building (Construction) Regulations. In addition, Table 3 of regulation 17(3) of the Building (Construction) Regulations sets out requirements for wind loads, horizontal imposed loads specified in on curtain wall when there is no protective barrier provided, protection of openings, protection against corrosion and the quality of materials.

When submitting curtain wall plans to the Building Authority for approval, the plans are required to include, among other things: (a) structural framing and key structural details and the installation procedures; (b) structural calculations comprising design check on the parent structure, analysis on the structural adequacy and stability of the proposed curtain wall system, element design for aluminium alloy, fixing components, glazing, and deflection check on major load carrying members; (c) workmanship specifications for welding, galvanization measures to overcome bi-metallic effects, and corrosion prevention; (d) material specifications for structural steel, aluminium alloy, cast-in anchors, fixing screws, structural sealant, and glazing; (e) the mode of support from and connection to the load bearing structure of the building (anchorage in structural concrete members or welded connections to structural steel members); (f) the projection of the curtain wall system from the outer face of the structural elements, e.g. beams, columns and floor slabs, for consideration of exemption from gross floor area and site coverage calculations, etc.

Under regulation 43(6) of the Building (Construction) Regulations, all curtain wall systems are required to undergo a safety test. Pursuant to the “Practice Note for Authorised Persons, Registered Structural Engineers and Registered Geotechnical Engineers – Curtain Wall, Window and Window Wall Systems (APP-37)”, the test should be carried out by an independent laboratory accredited by The Hong Kong Laboratory Accreditation Scheme (“HOKLAS”) or by other laboratory accreditation bodies which have reached mutual recognition agreements/arrangements with HOKLAS. The test reports should be made on a HOKLAS Endorsed Certificate and be appended with a statement signed by the Registered Structural Engineer who has prepared the plans to confirm the acceptance criteria appropriate to the test have been complied with. They should be submitted prior to the application of an occupation permit.

Minor works

Under the MWCS, the Building Professional appointed will be responsible for the design and supervision of the works while the registered contractor appointed will be responsible for

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carrying out the works. If a Building Professional is not required to be appointed, i.e. no Class 1 minor works items is involved, the registered contractor appointed will also be responsible for the design of the works.

The Building Authority must be notified of the commencement of projects involving Class I and Class II minor works items, in the specified form with prescribed plans, supporting documents and site photos, which must be submitted at least seven days before the commencement of works. The Building Authority will issue a submission number after verification that all works involved are “minor works” and a certificate of completion should be submitted in the specified form with the submission number, record plans, supporting documents and record photos within 14 days after the completion of works. For projects in which only Class III minor works are involved, it is not necessary to notify the Building Authority of the commencement of the projects as required for Class I and Class II minor works items. However, notice and certificate of completion should be submitted in the specified form with record plans or description of works, supporting documents and record photos (before and after the completion of works) within 14 days after the completion of works.

Design requirements for aluminium windows

The Buildings Department has issued the “Practice Note for Authorised Persons, Registered Structural Engineers and Registered Geotechnical Engineers – Aluminium Windows (APP 116)” (the “**PNAP (Aluminium Windows)**”), which specifies the requirements on the design and installation of aluminium windows and on the prevention of water seepage. Compliance with the design and installation requirements of aluminium windows described in PNAP (Aluminium Windows) will be accepted by the Building Authority as meeting the provisions of regulation 3 of the Building (Construction) Regulations. Any deviations from these requirements have to be separately substantiated for acceptance.

Others

Environmental laws and regulations

In the execution of the Group’s Design, Supply and Installation Projects in Hong Kong, the Group is subject to certain laws and regulations in relation to environmental protection. A summary of the principal environmental laws relevant to the Group’s business are set out below:

(a) Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong)

The Air Pollution Control Ordinance and its subsidiary legislation are the principal legislation in Hong Kong for controlling emission of air pollutants and noxious odour from construction, industrial and commercial activities. Under the relevant regulations, the contractor responsible for the construction site where notifiable work is proposed to be carried out has to give notice to the Environmental Protection Department before the commencement of work and adopt appropriate dust reduction measures. The maximum fines for convictions under the Air Pollution Control Ordinance range from \$100,000 to \$500,000 and six to 12 months’ imprisonment.

(b) Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong)

The Noise Control Ordinance regulates, among other things, noise from construction sites generated from construction work. Under this legislation, general construction work (including any work in connection with the construction of the whole or any part of a

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building) may be carried out between 7:00 a.m. to 7:00 p.m. on normal weekdays, and a construction noise permit is required at any other times. Any person who carries out construction work except as permitted is liable on first conviction to a fine of HK\$100,000, on second or subsequent conviction to a fine of HK\$200,000, and in any case to a fine of HK\$20,000 for each day during which the offence continues.

(c) Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong)

The Waste Disposal Ordinance controls the production, storage, collection and disposal of wastes. Under the relevant regulations, construction waste can only be disposed at designated prescribed facilities and the main contractor of the project would generally be responsible for paying any disposal charges for the construction waste generated from the construction work.

Others

Competition Ordinance (Chapter 619 of the Laws of Hong Kong)

The Competition Ordinance, among other things, prohibits conduct that prevents, restricts or distorts competition in Hong Kong. The Group is subject to the Competition Ordinance generally.

The “First Conduct Rule” under the Competition Ordinance prohibits undertakings from making or giving effect to an agreement, engaging in a concerted practice, or making or giving effect to a decision of an association, if the agreement concerned has the object or effect to harm competition in Hong Kong. Examples of serious anti-competitive conduct include price fixing agreements, market sharing agreements, and bid-rigging practices.

Penalties that the Competition Tribunal may impose for contraventions of the Competition Ordinance include pecuniary penalties, awards of damages, and interim injunctions during investigations or proceedings. The maximum penalty in relation to a single contravention can be up to 10% of the annual turnover obtained by the undertaking concerned in Hong Kong for each year the infringement lasted, or if the contravention occurred in more than three years, 10% of the annual turnover of the undertaking for the three years in which the contravention occurred with the highest turnover. The Competition Tribunal may also order the disqualification of responsible directors for up to five years.

II. THE LAWS AND REGULATIONS OF THE PRC

The Group, through one of its principal operating subsidiary, Million Hope (Huizhou), is engaged in the manufacture of aluminium windows and design, supply and installation of aluminium windows in the PRC. This section summarises applicable PRC laws and regulations that have a material impact on the Group’s business in the PRC.

Foreign Investment

Foreign investment in the PRC is principally governed by *the Guidance Catalogue of Industries for Foreign Investment* (外商投資產業指導目錄) (the “**Catalogue**”). The Catalogue divides industries into three categories: encouraged, restricted and prohibited. Industries not listed in the Catalogue are classified as permitted and generally open to foreign investment. Pursuant to the Catalogue as revised in 2015 and 2017 by National Development and Reform Commission (“**NDRC**”) and the Ministry of Commerce (“**MOFCOM**”), Million Hope (Huizhou)’s business falls within the permitted category.

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Million Hope (Huizhou) was incorporated as a wholly foreign – owned enterprise in the PRC. Its establishment and operation is generally governed by *the PRC Company Law* (公司法), which was enacted by the Standing Committee National People’s Congress (the “SCNPC”) on 29 December 1993 and was implemented since 1 July 1994, and was amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013 respectively, and applies to all companies incorporated in the PRC, *the PRC Law on Wholly Foreign-Owned Enterprises* (中華人民共和國外資企業法) which was promulgated and became effective on 12 April 1986, amended on 31 October 2000 and on 3 September 2016 respectively, as well as *the Detailed Rules for the Implementation of the Law of the PRC on Wholly Foreign-owned Enterprises* (中華人民共和國外資企業法實施細則) which was promulgated on 12 December 1990 and amended on 12 April 2001 and 19 February 2014 respectively. Furthermore, according to *the Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises (Revision)* (外商投資企業設立及變更備案管理暫行辦法修訂)) which was promulgated and became effective on 30 July 2017, Million Hope (Huizhou)’s change of its shareholding structure, registered capital, scope of business or other relevant aspects will need to be filed with the MOFCOM or its local branch.

Design And Construction Qualification

Pursuant to *the Administrative Regulations on Survey and Design of Construction Projects* (建設工程勘察設計管理條例) which was promulgated and became effective on 6 December 2015 and was amended on 7 October 2017, and *the Administrative Measures on Qualifications for Survey and Design of Construction Projects* (建設工程勘察設計資質管理規定) which was promulgated on 26 June 2007, came into effect since 1 September 2007 and was amended on 13 September 2016, enterprises engaged in construction project design activities shall, on the basis of their registered capital, professional technical staff, technical equipment, design experiences and other conditions, apply for relevant qualifications. After being examined and confirmed as satisfying the requirements and issued with the relevant construction project design qualification certificates, the enterprises are allowed to carry out design activities within the scope of the corresponding qualifications. *The Qualification Standards for Construction Projects Design* (工程設計資質標準) (Jian Shi [2007] No. 86), which was promulgated and effective on 29 March 2007, sets out the detailed criteria for different types of construction projects design qualifications, as well as the specific scope of projects that are permitted to be undertaken under different types of qualifications. According to these standards, there are Class A, B and C Architectural Decoration Project Design Qualification (建築裝飾工程設計專項資質) and enterprises possessing Class B of such qualification may undertake the decoration design for architectural construction projects with single contract amount being no more than RMB12 million. There are Class A and B Architectural Curtain Wall Design Qualification (建築幕牆工程設計專項資質) and enterprises possessing Class B of such qualification may undertake design of various types of curtain walls with a height of not more than 80 meters and the single curtain wall project area being no more than 6,000 square meters.

Pursuant to *the Administrative Regulations on Qualifications of Construction Enterprises* (建築業企業資質管理規定), which was promulgated on 22 January 2015, came into effect since 1 March 2015 and was amended on 13 September 2016, enterprises engaged in architectural construction activities shall, on the basis of their assets, principal staff, previous construction experiences, technical equipment and other conditions, apply for construction qualifications. After being examined and confirmed as meeting the relevant requirements and issued with the construction qualification certificates, the enterprises are allowed to carry out construction activities within the scope permitted under the corresponding qualifications. *The Qualification Standards for Construction Enterprises* (建築業企業資質標準) (Jian Shi [2014] No. 159), which was promulgated on 6 November 2014 and came into effect since 1 January 2015, sets out the detailed criteria for different types of construction qualifications, as well as the specific scope

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of projects that can be undertaken under different types of qualifications. According to these standards, there are Class I and Class II Specialized Contracting Qualification for Architectural Decoration Projects (建築裝修裝飾工程專業承包資質), and enterprises holding such Class II qualification are allowed to undertake construction of decoration projects with single contract amount being no more than RMB20 million. There are Class I and Class II Specialized Contracting Qualification for Architectural Curtain Wall Projects (建築幕牆工程專業承包資質), and enterprises possessing such Class II qualification are allowed to undertake construction of such curtain wall projects where the area of the curtain wall of a single architectural project is no more than 8,000 square meters. In addition, according to *Standards for Construction Enterprises* (建築業企業資質標準), the Specialized Contracting Qualification for Metal Doors and Windows Projects has been cancelled. As a consequence, the enterprises engaged in relevant construction contracting are not required to hold the corresponding *Certificate of Construction Enterprises Qualification* (建築業企業資質證書).

Pursuant to the previous *Qualification Standards for Architectural Decoration Design and Construction* (建築裝飾裝修工程設計與施工資質標準) and *Qualification Standards for Architectural Curtain Wall Design and Construction* (建築幕牆工程設計與施工資質標準) (collectively the “**Combined Qualification Standards**”), Million Hope (Huizhou) previously held a combined Project Design and Construction Qualification Certificate (工程設計與施工資質證書) for Class II architectural decoration design and construction qualification (建築裝飾裝修工程設計與施工貳級) and Class II architectural curtain wall design and construction qualification (建築幕牆工程設計與施工貳級). According to the *Circular of the Ministry of Housing and Urban-Rural Development on Matters relating to the Cancellation of Four Project Design and Construction Qualifications Including Intelligent Buildings* (住房城鄉建設部關於取消建築智能化等4個工程設計與施工資質有關事項的通知) (Jian Shi [2015] No. 102), which was promulgated by the Ministry of Housing and Urban-Rural Development (the “**MHURD**”) on 14 July 2015, the examination and approval of the Combined Qualification Standards were abolished since 14 July 2015. Based upon relevant regulations for change of certificates and transitional arrangements, Million Hope (Huizhou) is required to, at least 60 days prior to expiration of the previous combined qualification certificate, apply to the relevant regulatory authorities to directly replace the certificate with a new Class B decoration and curtain wall design qualification certificate and a new Class II decoration and curtain wall construction qualification certificate, as described in above paragraphs. According to these regulations, Million Hope (Huizhou) has obtained the new Class B Project Design Qualification Certificate for design of architectural decoration and curtain wall projects, and the new Class II Construction Enterprise Qualification Certificate for specialized contracting of architectural decoration and curtain wall projects.

Work Safety

The Work Safety Law of the PRC (中華人民共和國安全生產法), which was promulgated on 29 June 2002, came into effect since 1 November 2002, and was amended on 27 August 2009 and 31 August 2014, requires enterprises to strengthen work safety management, establish and improve work safety responsibility systems and work safety policies and rules, enhance work safety conditions, promote work safety standardization and ensure work safety. *The Administrative Regulations on Work Safety of Construction Projects* (建設工程安全生產管理條例), which was promulgated on 24 November 2003 and came into effect on 1 February 2004, specifies construction enterprises’ responsibilities for work safety, including: (i) establishing work safety management body or having full time work safety management personnel, (ii) providing employees with work safety education and training, (iii) formulating work safety rules and policies, as well as operational procedures, (iv) ensuring usage of funds required to maintain work safety conditions, (v) conducting regular and special inspections for safety purpose of construction projects, and make records of such inspections, (vi) providing workers with personal protective equipment and inform them in writing the

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operational procedures for dangerous work, as well as the harm of breaching the procedures; and (vii) procuring accidental injury insurances for workers involved in dangerous work on construction sites.

Pursuant to *the Regulations on Work Safety License* (安全生產許可證條例), which was promulgated and effective on 29 July 2014, and *the Administrative Provisions on Construction Enterprise's Work Safety License* (建築施工企業安全生產許可證管理規定), which was promulgated and effective on 5 July 2004, construction enterprises are subject to a work safety licensing system and shall apply for, and obtain, *the Work Safety License* (安全生產許可證) before undertaking any construction activities. If a construction enterprise suffers a serious accident, its work safety license will be suspended and it shall make rectification within a prescribed time limit. Pursuant to *The Opinions of MHURD on the Application of Work Safety License by Eight Kinds of Specialized Contracting Enterprises (including Earthwork and Precast Concrete)* (住房城鄉建設部辦公廳關於土石方、混凝土預製構件等8類專業承包企業申領安全生產許可證事宜的意見) (Jian Ban Zhi Han [2015] No.269), enterprises engaged in the construction of metal windows and doors are not required to apply for and obtain the work safety license.

Product Quality

According to *the PRC Law on Product Quality* (中華人民共和國產品質量法) (“**Product Quality Law**”), which was promulgated and effective on 27 August 2009, and applies to all manufacture and sale activities in the PRC, manufacturers are responsible for the quality of the products they manufacture. Products shall meet the following quality requirements: (i) constituting no unreasonable threats to personal safety or safety of property, and conforming to national standards or industrial standards for ensuring human health, personal safety and safety of property, where there are such standards; (ii) possessing the properties and functions as required for use; and (iii) conforming to the product standards marked on the products or on the packages thereof, and to the quality conditions indicated by way of product descriptions, samples, etc.. Violation of the Product Quality Law may result in civil liabilities, administrative penalties and even criminal liabilities in serious cases. Where a defective product causes physical injury to a person or damage to another person's property, the victim may claim compensation from the manufacturer of the product.

Construction Project Quality

Pursuant to *the Administrative Regulations on Construction Project Quality* (建設工程質量管理條例), which was promulgated and effective on 30 January 2000, construction enterprises shall be responsible for the quality of their construction works. The main contractor of a construction project shall be responsible for the quality of the whole project. If the main contractor subcontracts construction works to a subcontractor, the subcontractor shall be liable to the main contractor for the quality of the subcontracted works in accordance with the contract between them, and the main contractor and subcontractor shall be jointly and severally liable to the owner for the quality of the subcontracted works.

Import and Export of Goods

According to *the PRC Law on Foreign Trade* (中華人民共和國對外貿易法), which was promulgated on 12 May 1994, came into effect since 1 July 1994 and was amended on 6 April 2004 and 7 November 2016, respectively, and *the Measures on Filing and Registration of Foreign Trade Business Operators* (對外貿易經營者備案登記辦法), which was promulgated on 25 June 2004, came into effect on 1 July 2004 and was amended on 18 August 2016, foreign trade business operators engaged in import of goods are required to go through filing and registration procedures with MOFCOM or institutions it entrusts. Foreign trade business

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operators failing to go through such procedures will be declined by the PRC Customs (“Customs”) to process customs clearance.

Pursuant to *the Customs Law of the PRC* (中華人民共和國海關法), which was promulgated on 22 January 1987, came into effect on since 1 July 1987 and was amended on 8 July 2000, 28 December 2013, 7 November 2016 and 4 November 2017, respectively, and *the Regulations of PRC Customs on Administration of Registration of Declaration Entities* (中華人民共和國海關報關單位註冊登記管理規定), which was promulgated and effective on 13 March 2014 and was amended on 20 December 2017, and 29 May 2018 import and export of goods are subject to the Customs’ control. Consignees of import goods and consignors of export goods have the obligations to make true declarations to the Customs. Duties shall be levied by the Customs in respect of the goods allowed to be imported and exported. Consignees of import goods and consignors of export goods are required to be registered with the local Customs and obtain the *Certificate for Registration of Consignee or Consignor of Import or Export Goods for Declarations with PRC Customs* (海關進出口貨物收發貨人報關註冊登記證書).

Environmental Protection

The Environmental Protection Law of the PRC (中華人民共和國環境保護法), which was promulgated and effective on 26 December 1989 and was amended on 24 April 2014, *the Administrative Regulations on the Environmental Protection of Construction Projects* (建設項目環境保護管理條例), which was promulgated and effective on 29 November 1989 and was amended on 16 July 2016, *the Law of the PRC on Environmental Impact Assessment* (中華人民共和國環境影響評價法), which was promulgated on 28 October 2002, came into effect on 1 September 2003 and was amended on 2 July 2016, *the Administration Regulations on Record-filing of the Registration Forms of Construction Projects* (建設項目環境影響登記表備案管理辦法), which was promulgated on 16 November 2016 and became effective on 1 January 2017, and *the Administrative Measures on Environmental Protection Inspection and Acceptance for Completion of Construction Projects* (建設項目竣工環境保護驗收管理辦法), which was promulgated on 27 December 2002 and came into effect on 1 February 2003, have established the fundamental legal regime on environmental protection in the PRC in respect of construction projects. Under these laws and regulations, environmental impact assessment (“EIA”) shall be completed prior to construction of a project. The EIA document compiled in accordance with the laws and regulations shall be submitted to the competent environmental protection authority for approval or filing. Facilities for prevention and control of pollution must be designed, built and put into operation simultaneously with the principal part of the construction project. Once a construction project is completed, application shall be made to the competent environmental protection authority for inspection and acceptance of the project before commencing the actual production.

Pursuant to *the Environmental Protection Law of the PRC and 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) promulgated on 11 May 1984, became effective on 1 November 1984 and amended respectively on 15 May 1996, 28 February 2008 and 27 June 2017, *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) promulgated on 5 September 1987, became effective on 1 June 1988 and amended respectively on 29 August 1995, 29 April 2000 and 6 July 2015, *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) promulgated on 29 October 1996 and became effective on 1 March 1997, enterprises discharging pollutants must report to and register with the competent environmental protection administration authorities. Enterprises discharging pollutants in excess of the prescribed national or local discharge standards shall pay a fee for excessive discharge and assume the responsibility for eliminating and controlling the pollution.

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Under the *Construction Law of the PRC* (中華人民共和國建築法), which was promulgated on 1 November 1997 came into effect on 1 March 1998 and was amended on 22 April 2011, construction enterprises must, in accordance with laws and regulations concerning environmental protection and work safety, adopt measures to control environmental pollution and harm resulting from dust, waste gas, waste water, solid waste materials, noise and vibration at construction sites.

Labour and Social Security

Million Hope (Huizhou) employs staff in the PRC and is required to comply with the PRC laws on labour and social security.

Pursuant to the *Labour Law of the PRC* (中華人民共和國勞動法) promulgated on 5 July 1994, became effective on 1 January and amended on 27 August 2009, and the *Labour Contract Law of the PRC* (中華人民共和國勞動合同法) promulgated on 29 June 2007, became effective on 1 January 2008 and amended on 28 December 2012, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises and employees. The salaries paid by enterprises to their employees shall not be lower than the local minimum salary standard. The salaries shall be paid by the enterprises on time and in full to the employees. Enterprises shall maintain work place safety and sanitation conditions in compliance with relevant laws and regulations.

Employers in the PRC are required to make contributions to various social insurances (including medical, pension, unemployment, work-related injury and maternity insurances) and the housing fund for employees in accordance with the *Social Insurance Law of the PRC* (中華人民共和國社會保險法), which was promulgated on 28 October 2010 and became effective since 1 July 2011, and the *Administrative Regulations on Housing Fund* (住房公積金管理條例), which was promulgated and effective on 3 April 1994 and amended on 24 March 2002. These payments are made to local administrative authorities, and an employer who fails to make contributions in a timely manner may be fined and be ordered to make up for the outstanding contributions.

Foreign Exchange

Million Hope (Huizhou) is a foreign invested enterprise under the PRC laws, its registered capital has been contributed by its shareholder in foreign currency and it has opened foreign exchange accounts at the PRC banks. Million Hope (Huizhou) is required to use its registered capital, deal with its foreign exchange bank accounts, and conduct its other foreign exchange business in accordance with the PRC's foreign exchange control regime. Major applicable regulations include the *Regulations on Foreign Exchange Control of the PRC* (中華人民共和國外匯管理條例), which was promulgated on 29 January 1996 and was last amended on 5 August 2008, the *Regulations on Foreign Exchange Administration for Foreign Investors' Direct Investments* (外國投資者境內直接投資外匯管理規定) (Hui Fa [2013] No. 21), which was promulgated on 10 May 2013, the *Circular of State Administration of Foreign Exchange on Further Simplifying and Improving Foreign Exchange Administration Policies on Direct Investments* (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) (Hui Fa [2015] No.13), which was promulgated on 13 February 2015 and became effective since 1 June 2015, and the *Circular of State Administration of Foreign Exchange on Reform of Administrative Approach Concerning Settlement of Foreign Exchange Capital of Foreign-Invested 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)(Hui Fa [2015] No. 19), which was promulgated on 30 March 2015 and became effective on 1 June 2015.

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Pursuant to these rules and regulations, (i) RMB is freely convertible for international payment and transfer of foreign exchange for current accounts transactions (including sales of goods, provision of services, etc.); (ii) payment and receipt of foreign exchange for current accounts transactions shall be on the basis of genuine and lawful transactions; (iii) foreign exchange registration shall be handled in respect of foreign investors’ direct investment in the PRC; (iv) foreign-invested enterprises can settle foreign exchange capitals on a discretionary basis, and foreign-invested enterprises may, according to their actual business needs, settle with a bank the portion of the foreign exchange capital in their capital account for which the relevant foreign exchange bureau has confirmed monetary contribution interests (or for which the bank has registered the account-crediting of monetary contribution); Foreign-invested enterprises are temporarily allowed to settle 100.0% of their foreign exchange capitals on a discretionary basis and the State Administration of Foreign Exchange (“SAFE”) may adjust the foregoing percentage as appropriate based on prevailing international balance of payments; (v) foreign exchange settlement funds for capital accounts transactions (including direct investments, loans, etc.) must be used for the purpose approved by the relevant authorities, and in particular, foreign invested enterprises may settle their registered capital into RMB according to their actual operation needs, but they shall not use such RMB funds for purposes beyond their scope of business or for other purposes prohibited by foreign exchange regulations; and (vi) loans borrowed by PRC companies (including a foreign invested enterprise such as Million Hope (Huizhou)) from foreign companies (including a shareholder of a foreign invested enterprise) must be registered with competent foreign exchange authorities.

Taxation

1. *Enterprise Income Tax*

According to *the Enterprise Income Tax Law* (中華人民共和國企業所得稅法) (the “**EIT Law**”), which was promulgated on 16 March 2007 and came into effect on 1 January 2008 and was amended on 24 February 2017, and *the Implementation Regulations of EIT Law* (企業所得稅法實施條例), which was promulgated on 6 December 2007 and came into effect on 1 January 2008, the income tax rate of 25% applies to all PRC companies, foreign-invested companies and foreign companies which have established production and operation facilities in the PRC.

These enterprises are classified as either resident enterprises or non-resident enterprises. An enterprise that is established in China in accordance with PRC laws, or that is established in accordance with the law of a foreign country (region) but whose “de facto management bodies” inside China is resident enterprise, which is subject to enterprise income tax at the rate of 25% on their global income. The Implementation Regulations of EIT Law defines the term “de facto management bodies” as “bodies that conduct substantial and all-round management and control with respect to the production, operations, personnel, finance, property, etc. of the enterprise.” An enterprise that is established according to the law of a foreign country (region) and whose “de facto management bodies” are not in China, but which have established institutions or premises in China or which have not established institutions or premises in China but have income earned in China is non-resident enterprise.

2. *Value-added tax*

In accordance with *the Provisional Regulations of the PRC Concerning Value-added Tax* (中華人民共和國增值稅暫行條例), which was promulgated by the State Council on 10 November 2008 and amended on 6 February 2016, and *the Rules for Implementation of the Provisional Regulations of the PRC concerning Value-added Tax* (中華人民共和國增值稅暫行條例實施細則), which was promulgated on 18 December 2008 and amended on 28 October 2011 (the latest revision became effective on 1 November 2011), value-added tax (增值稅) (the

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“VAT”) is imposed on any entity or individual engaging in the sale of goods, provision of processing, repair or replacement services, or importation of goods within the PRC.

Pursuant to *the Circular on Printing and Issuing the Pilot Proposals for the Transformation from Business Tax to VAT* (關於印發營業稅改徵增值稅試點方案的通知) (Cai Shui [2011] No. 110), which was promulgated by the Ministry of Finance of the PRC and the SAT and became effective on 16 November 2011, and in accordance with *the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in lieu of Business Tax* (關於全面推開營業稅改徵增值稅試點的通知) (Cai Shui [2016] No. 36) promulgated by the Ministry of Finance and the SAT on 23 March 2016 and which became effective on 1 May 2016, the transformation from business tax to VAT took effect on 1 January 2012 in businesses of pilot areas and has been implemented nationwide from 1 May 2016. VAT is imposed by the SAT on all units and individuals selling services, intangible assets or immovable assets within the territory of the PRC. According to the foregoing regulations, two levels of low VAT rates of 11.0% and 6.0% are added to the current VAT rates which are 17.0% and 13.0% respectively. The tax rate for businesses such as transportation and construction is 11.0%, while the tax rate for certain other modern service businesses is 6.0%.

On 4 April 2018, the Ministry of Finance and the SAT jointly issued the Notice on Adjustment of Value-added Tax Rates (Cai Shui [2018] No. 32), which took effect from 1 May 2018. Pursuant to the Notice, the previously applicable VAT rates of 17% and 11% shall be adjusted to 16% and 10% respectively.

3. VAT export refund

According to *the Administrative Measures for Tax Rebate (Exemption) of Exported Goods (Trial Implementation)* (出口貨物退稅管理辦法試行) (Guo Fa [2005] No. 51), which was promulgated by the SAT on 16 March 2005 and became effective on 1 May 2005, unless otherwise prescribed, upon declaration of export and financial accounting for sale, the VAT in relation to the goods exported by export agents can be rebated or exempted upon approval by competent tax authority.

III. COMPLIANCE WITH THE RELEVANT REQUIREMENTS IN HONG KONG AND THE PRC

So far as the Directors are aware, the Group has obtained all necessary licences, permits, and approvals to operate its existing business in Hong Kong and the PRC and has complied with all applicable laws, regulations, rules and guidelines which are material to the business and operations of the Group in Hong Kong and the PRC in all material respects during the Track Record Period and up to the Latest Practicable Date.