
REGULATORY OVERVIEW

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

LAWS AND REGULATIONS RELATING TO OUR OPERATIONS IN THE PRC

Foreign Investment Law

According to the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) promulgated by the NPC on March 15, 2019 and effectuated on January 1, 2020, and the Regulations on Implementation of the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) promulgated by the State Council on December 26, 2019 and effectuated on January 1, 2020, in replacement of the existing foreign investment laws, the investment activities within the territory of China conducted by foreign investors, directly or indirectly, shall comply with and be governed by such laws and regulations on foreign investment, and specifically be subject to the industrial restrictions imposed by the Chinese regulators, with certain industrial areas within the scope of negative list prohibited from investing by foreign investors.

According to the Measures of the Reporting of Foreign Investment Information (《外商投資信息報告辦法》) promulgated by the Ministry of Commerce and the State Administration for Market Regulation on December 30, 2019 and implemented since January 1, 2020, when foreign investors directly or indirectly carry out investment activities in China, relevant investment information shall be submitted by such foreign investors or their invested enterprises to or shared with the competent commerce authorities.

Operating Lease Contract in the Civil Code

Civil Code of the PRC (《中華人民共和國民法典》) (the "Civil Code"), promulgated by the NPC on May 28, 2020 and effectuated on January 1, 2021, shall govern personal and property relationships among natural persons, legal persons and unincorporated associations with equal status, as the codification of separate civil laws of the PRC, including the Marriage Law, the Law of Succession, the General Principles of the Civil Law, the Adoption Law, the Guaranty Law, the Contract Law, the Property Law, the Tort Law and the General Rules of the Civil Law which shall be simultaneously repealed when the Civil Code comes into effect.

As the operating lease is not explicitly stipulated by the Civil Code while Chapter 15 "Financial Leasing Contracts" of Part III "Contracts" thereunder merely sets out mandatory rules on financial lease (融資租賃), Chapter 14 "Lease Contracts" thereof shall apply to the operating lease.

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Accounting Standards Governing Operating Leases

The principal accounting standards governing operating leases in the PRC are set out in Accounting Standards for Business Enterprises No. 21 — Leases (《企業會計準則第21號 — 租賃》) (2018 Revision, the “Standard 21”), promulgated by the Ministry of Finance on December 7, 2018 and effectuated on January 1, 2019. According to the Standard 21 and its relevant interpretation, a lease refers to a contract whereby the lessor conveys to the lessee the right to use an asset for a specified period of time in exchange for a consideration, and a lessor shall classify a lease as a financial lease (a lease under which substantially all of the risks and rewards related to the ownership of the leased asset are transferred, whereas the eventual ownership may or may not be transferred) or an operating lease (a lease other than a financial lease) on the lease commencement date on the basis of transactional substance over contractual form. For each period of the lease term (including the rent-free period), the lessor shall adopt an applicable method to recognize the income as rents received from the operating lease, and the initial direct expenses incurred to a lessor in relation to the operating lease shall be capitalized and apportioned on the same income recognition basis during the lease term. As to the fixed leased assets in an operating lease, the lessor shall accrue depreciation by adopting the depreciation policies for similar assets, while other operating leased assets shall be amortized by systematic and reasonable methods pursuant to the applicable accounting standards. The uncovered variable lease payment acquired by a lessor shall be included in current loss and profit at the time of actual incurrence.

In addition, the Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments (《企業會計準則第22號 — 金融工具確認和計量》) (2017 Revision), promulgated by the Ministry of Finance on March 31, 2017 and effectuated on January 1, 2018, applies to the impairment and derecognition of lease receivables, derecognition of lease payables, and derivatives embedded in leases. As to lease receivables, the credit loss shall be determined by the present value of the difference between the contractual cash flow receivable and the cash flow expected to be received.

Licenses for Contracting Construction Project

The Construction Law of the PRC (《中華人民共和國建築法》), as promulgated on November 1, 1997 and most recently amended on April 23, 2019, together with the Provisions on the Administration of Qualifications of Enterprises in Construction Industry (《建築業企業資質管理規定》), the Qualification Standards of Construction Enterprises (《建築業企業資質標準》), the Implementing Measures of Premium Class Qualification Standards for General Construction Sub-Contractors (《施工總承包企業特級資質標準實施辦法》), the Construction Enterprise Qualification Management Regulations and the Implementation of Qualification Standards (《建築業企業資質管理規定和資質標準實施意見》) and other regulations, stipulate to exercise a license system on the construction enterprises on a category-divided basis, pursuant to which an enterprise may only engage

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in construction contracting activities upon receipt of relevant licenses and within the scope permitted by such licenses. The foregoing licenses fall into three categories, namely, general contractors that are qualified to undertake the whole construction project, professional contractors that are qualified to undertake a specialized project and labor service contractors that are qualified to undertake labor services; among the three categories, general contractors and professional contractors are further classified into underlying grades. On November 30, 2020, the Ministry of Housing and Urban-Rural Development of the PRC (the "MOHURD") issued the Reform Plan for the Qualification Management System of Construction Engineering Enterprises (《建設工程企業資質管理制度改革方案》) to further merge and streamline the grading categories of general contractors and professional contractors.

Work Safety in Construction Projects

According to the Work Safety Law of the PRC (《中華人民共和國安全生產法》), as promulgated on June 29, 2002 and amended from time to time, an entity engaging in production and operation activities shall meet the regulatory standard on work safety and satisfy corresponding work conditions as required by laws, administrative regulations and state or industry policies, and shall not conduct any production activities if failing to do so.

Furthermore, the Regulations on the Administration of Work Safety of Construction Projects (《建設工程安全生產管理條例》) (the "Work Safety Regulations"), promulgated by the State Council on November 24, 2003 and effective on February 1, 2004, provides specified requirements for work safety in construction projects on construction entities and all other entities in connection with the project safety. Pursuant to the Provisions on the Administration of Construction Enterprises' Work Safety Permits (《建築施工企業安全生產許可證管理規定》) promulgated by the Ministry of Construction (repealed and replaced by the MOHURD) on July 5, 2004 and revised on January 22, 2015, a construction enterprise shall obtain the work safety license from the competent authorities before undertaking any construction activity.

License for Repairing Special Equipment

Pursuant to the Law of the PRC on Special Equipment Safety (《中華人民共和國特種設備安全法》) promulgated by the NPC on June 29, 2013 and implemented on January 1, 2014, and the Regulations on the Safety Supervision of Special Equipment (《特種設備安全監察條例》) promulgated by the State Council on March 11, 2003 and amended from time to time, the state, under the principle of category-based administration, exercises a license system on the production (including design, manufacture, installation, refitting and repair) of special equipment. As to the repair and maintenance of special equipment, among other things, including in-plant (in-factory) special motor vehicles, the entities shall obtain the Production License of Special Equipment (《特種設備生產許可證》), the

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“Production License”), engage the professional technicians and technical workers fit for the maintenance of special equipment as well as the necessary testing means, and may carry out the corresponding maintenance activities only after they are licensed by the competent authorities. The entities shall use the special equipment for which the Production License has been obtained and the inspection has been conducted, and shall, before or within thirty (30) days after the special equipment is put into use, register with competent authorities and obtain the Certificate of Special Equipment Service Registration (《特種設備使用登記證》).

LAWS AND REGULATIONS RELATING TO TAXATION

Income Tax

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “EIT Law”) promulgated by the NPC on March 16, 2007 and amended from time to time and the Implementation Rules of the EIT Law (《企業所得稅法實施條例》) promulgated by the State Council on December 6, 2007 and revised on April 23, 2019, a domestic enterprise which is legally established within the PRC or established in accordance with overseas laws but with an actual management entity within the PRC shall be regarded as a resident enterprise, which shall be subject to an income tax of 25%, generally, of any income generated within or outside the PRC.

Value-Added Tax

According to the Interim Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) which was promulgated by the State Council on December 13, 1993 and revised from time to time, and the Detailed Rules for the Implementation of the Interim Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) which was promulgated by the Ministry of Finance on December 25, 1993 and amended from time to time, entities and individuals that sell goods or labor services of processing, repair or replacement, as well as selling services, intangible assets, or immovables, and importing goods within the territory of China are taxpayers of value-added tax (the “VAT”), and shall pay VAT at the applicable rate based on the activities.

According to the Notice on Simplified Taxation on Operating Lease Services of Old Equipment (《關於老設備經營租賃服務簡易徵收相關問題的公告》) promulgated by Shanghai Municipal State Tax Bureau (repealed and replaced by the Shanghai Municipal Tax Service of Stage Administration of Taxation) on November 2, 2012, starting from July 1, 2012, general taxpayers among pilot taxpayers who provide operating lease services regarding the lease of tangible personal property, purchased or self-produced prior to December 31, 2011, may opt to calculate and pay VAT in the simple tax computation method during the pilot period.

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LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

According to the Foreign Exchange Administration Regulations of the PRC (《中華人民共和國外匯管理條例》) promulgated by the State Council on January 29, 1996 and amended from time to time, and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (《結匯、售匯及付匯管理規定》) promulgated by the PBOC on June 20, 1996 and effective on July 1, 1996, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but relatively not freely convertible for capital account items. The SAFE further issued the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (《關於改革和規範資本項目結匯管理政策的通知》) on June 9, 2016, pursuant to which the settlement of foreign exchange income under the capital account (including but not limited to foreign currency capital and foreign debts) can be settled at banks at discretion based on the actual operating needs of the domestic companies, and the proportion of such discretionary settlement is temporarily set as 100%, subject to future adjustment by the SAFE based on international balance of payments.

According to the Circular of the SAFE on Reforming the Administration Measures on Conversion of Foreign Exchange Registered 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) ("SAFE Circular 19"), promulgated on March 30, 2015 and effective on June 1, 2015, a foreign-invested enterprise may, in response to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account crediting of monetary contribution), and such enterprise is allowed to tentatively settle such portion at 100% of their foreign exchange capital on a discretionary basis. Furthermore, SAFE Circular 19 stipulates that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises.

LAWS AND REGULATIONS RELATING TO LABOR AND SOCIAL SECURITY

Labor Law and Labor Contract Law

According to the Labor Law of the PRC (《中華人民共和國勞動法》), promulgated by the Standing Committee of the NPC on July 5, 1994 and amended from time to time, and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), promulgated on June 29, 2007 and amended on December 28, 2012, written labor contracts shall be executed between an entity and its employees if an employment relationship is established. Employers are required to inform their employees about their job responsibilities, working conditions, occupational hazards, remuneration and other matters with which the employees may be concerned, and to pay remuneration to employees on time and in full in accordance with the commitments set forth in their employment contracts and the relevant PRC laws and regulations.

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Social Security and Housing Provident Fund

Pursuant to the Social Security Law of the PRC (《中華人民共和國社會保險法》), promulgated on October 28, 2010 and amended on December 29, 2018, along with relevant regulations including the Interim Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), the Trial Measures for Enterprise Staff Maternity Insurance (《企業職工生育保險試行辦法》), the Regulations on Work-Related Injury Insurance (《工傷保險條例》), and the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》), employers in the PRC shall provide their employees with welfare schemes covering basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance, occupational injury insurance and housing provident fund.

For employers failing to conduct social insurance registration, the administrative department of social insurance shall order them to make corrections within a prescribed time limit. If employers fail to do so within the time limit, they shall have to pay a penalty over one time but no more than three times the amount of the social insurance premium payable to them, and their executive staffs and other directly responsible persons shall be fined RMB500 to RMB3,000. In cases where employers fail to pay social insurance premiums in full or on time, the social insurance premium collection agency shall order it to pay or make up the balance within a prescribed time limit, and shall impose a daily late fee at the rate of 0.05% of the outstanding amount from the due date. If employers fail to pay within the time limit prescribed, a fine of one time to three times the amount in default will be imposed on them by the relevant administrative department.

For employers who violate the laws and regulations and fail to apply for housing provident fund deposit registration or open housing provident fund accounts for their employees, the housing provident fund administrative center shall order the relevant employers to make corrections within a designated period. Those employers failing to process registration or open provident fund accounts for their employees within the designated period shall be subject to a fine ranging from RMB10,000 to RMB50,000. When employers violate those provisions and fail to pay the housing provident fund in full amount as due, the housing provident fund administrative center shall order such employers to pay up the amount within a prescribed period. If those employers still fail to comply with the regulations upon the expiration of the time limit, further application may be made to the People's Court for mandatory enforcement.

In addition, pursuant to the Work Safety Regulations, a construction entity must purchase accidental injury insurance for the workers engaged in dangerous work on the construction site for injuries incurred in work-related accidents, and the insurance premium shall be paid by the construction entity, or the general contractor in the case where the construction work is covered by a general contractor.

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OVERSEAS OFFERING AND LISTING

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Enterprises (《境內企業境外發行證券和上市管理試行辦法》) (the “**Overseas Listing Trial Measures**”) and relevant five guidelines, which became effective on March 31, 2023. According to the Overseas Listing Trial Measures, the PRC domestic enterprises that seek to offer and list securities in overseas markets, either in direct or indirect means (“**Overseas Offering and Listing**”), are required to fulfill the filing procedure with the CSRC and submit filing reports, legal opinions and other relevant documents. Specifically, following the principle of substance over form, if an issuer both meets the following criteria, its overseas offering and listing will be deemed as indirect Overseas Offering and Listing by a PRC domestic enterprises: (i) 50% or more of any of the issuer’s operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent fiscal year is accounted for by domestic companies; and (ii) the main parts of the issuer’s business activities are conducted in mainland China, or its main place(s) of business are located in mainland China, or the majority of senior management staff in charge of its business operations and management are PRC citizens or have their usual place(s) of residence located in mainland China. In the case of indirect Overseas Offering and Listing by a PRC domestic enterprise, the issuer shall designate a major domestic operating entity as the responsible domestic party for filing with CSRC. The Overseas Listing Trial Measures also set forth the issuer’s reporting obligations in the event of occurrence of material events after the Overseas Offering and Listing. In the event of the occurrence of any of the following material events, the issuer shall make a detailed report to the CSRC within 3 working days after the occurrence and public announcement of the relevant event: (i) change in controlling rights; (ii) being subject to investigation, punishment or other measures by overseas securities regulatory authorities or the relevant authorities; (iii) changing listing status or changing the listing board; (iv) voluntary or compulsory termination of listing. Besides, if any material change in the principal business and operation of the issuer after its Overseas Offering and Listing makes the issuer no longer within the scope of record-filing, the issuer shall submit a special report and a legal opinion issued by a PRC domestic law firm to the CSRC within 3 working days after the occurrence of the relevant change to provide an explanation of the relevant situation.

According to the Overseas Listing Trial Measures, the PRC domestic enterprises engaging in Overseas Offering and Listing activities shall strictly comply with the laws, administrative regulations and relevant provisions of the PRC government on foreign investment, State-owned assets, industry regulation, overseas investment, etc., shall not disrupt domestic market order, and shall not harm national interests, public interest and the legitimate rights and interests of domestic investors. The PRC domestic enterprise that conducts Overseas Offering and Listing shall (i) formulate its articles of association, improve its internal control system and standardize its corporate governance, financial affairs and accounting activities in accordance with the PRC Company Law, the PRC

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Accounting Law and other PRC laws, administrative regulations and applicable provisions; (ii) abide by the legal system of the PRC on confidentiality and take necessary measures to implement the confidentiality responsibility, shall not divulge any state secret or the work secrets of state authorities, and shall also comply with laws, administrative regulations and the relevant provisions of the PRC where involved in the overseas provision of personal information and important data. In addition, the Overseas Listing Trial Measures also provides the circumstances where the Overseas Offering and Listing is explicitly prohibited, including: (i) such securities offering and listing is explicitly prohibited by provisions in laws, administrative regulations and relevant state rules; (ii) the Overseas Offering and Listing may endanger national security as reviewed and determined by competent authorities under the State Council in accordance with law; (iii) the PRC domestic enterprise, or its controlling shareholder(s) and the actual controller, have committed relevant crimes such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years; (iv) the PRC domestic enterprise is currently under investigations for suspicion of criminal offenses or major violations of laws and regulations, and no conclusion has yet been made thereof; or (v) there are material ownership disputes over equity held by the controlling shareholder(s) or by other shareholder(s) that are controlled by the controlling shareholder(s) and/or actual controller.