*This section sets out a summary of certain aspects of the laws and regulations of the PRC and Hong Kong which are relevant to the business and operations of our Group. The principal objective of this summary is to provide potential investors with an overview of the key laws and regulations applicable to us. This summary does not purport to be a comprehensive description of all the laws and regulations applicable to our business and operations and/or which may be important to potential investors. Investors should note that the following summary is based on laws and regulations in force as at the date of this document, which may be subject to change.*

## PRC LAWS AND REGULATIONS

This section sets out a summary of certain aspects of laws and regulations of the PRC, which are relevant to the business and operations of our Group.

## LAWS AND REGULATIONS IN RELATION TO FOREIGN INVESTMENT

The Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) (the "**Foreign Investment Law**") promulgated by the National People's Congress became effective on January 1, 2020. The Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures, the Law of the People's Republic of China on Wholly Foreign-Owned Enterprises and the Law of the People's Republic of China on Sino-Foreign Contractual Joint Ventures were abolished at the same time. Since then, the Foreign Investment Law has become the basic law regulating foreign-invested enterprises wholly or partially invested by foreign investors. The organization form, institutional framework and standard of conduct of foreign-invested enterprises shall be subject to the provisions of the PRC Company Law and other laws. China implements the management system of pre-entry national treatment and the Negative List for foreign investment, and abolished the original approval and filing administration system for the establishment and change of foreign-invested enterprises. Pre-entry national treatment refers to the treatment accorded to foreign investors and their investments at the stage of investment entry which is no less favorable than the treatment accorded to domestic investors and their investments.

The Negative List refers to a special administrative measure for the entry of foreign investment in specific sectors as imposed by the PRC. The PRC accords national treatment to foreign investment outside of the Negative List. The current Negative List is the Special Management Measures (the "**Negative List**") for the Access of Foreign Investment (2021 Revision) (《外商投資准入特別管理措施(負面清單)(2021年版)》) issued by the NDRC and the MOFCOM on December 27, 2021, and came into effect on January 1, 2022 which lists the special management measures for foreign investment access for industries regulated by the Negative List, such as equity requirements and senior management requirements. In the current implemented negative list, the AI and robotics industry is not explicitly listed as an industry regulated by the Negative List.

While strengthening investment promotion and protection, the Foreign Investment Law further regulates foreign investment management and proposes the establishment of a foreign investment information reporting system that replaces the original foreign investment enterprise approval and filing system of MOFCOM. The foreign investment information reporting is subject to the Foreign Investment Information Reporting Method (《外商投資信息報告辦法》) jointly developed by MOFCOM and SAMR, which came into effect on January 1, 2020. According to the Foreign Investment Information Reporting Method, foreign investors who directly or indirectly carry out investment activities in China shall submit investment information to the competent commercial department through the enterprise registration system and the National Enterprise Credit Information Publicity System and the reporting methods include initial reports, change reports, cancellation reports, and annual reports.

## LAWS RELATED TO PRODUCT QUALITY

The Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》) (the "**Product Quality Law**") promulgated by the Standing Committee of the National People's Congress (the "**SCNPC**") on February 22, 1993 and last amended on December 29, 2018 is the principal governing law related to the supervision and administration of product quality. According to the Product Quality Law, manufacturers shall be liable for the quality of products produced by them and sellers shall take measures to ensure the quality of the products sold by them. A manufacturer shall be liable to compensate for any physical injuries or damage to property other than the defective product itself resulting from the defects in the product, unless the manufacturer is able to prove that: (1) the product has not been put into circulation; (2) the defects causing injuries or damage did not exist at the time when the product was put into circulation; or (3) the science and technology at the time when the product was put into circulation were at a level incapable of detecting the existence of the defect. A seller shall be liable to compensate for any physical injuries or damage to property of others caused by the defects in the product. Where a product is defective due to a mistake made by the seller and such defect causes physical injury or damage to the property of others, the seller shall bear liability for compensation. Where a seller cannot specify the producer of a defective product nor the supplier of such defective product, the seller shall be liable for compensation. Where a defect in a product causes physical injuries to others or damages to the property of others, the victim may claim compensation from the producer of the product or from the seller of the product.

Pursuant to the Civil Code of the People's Republic of China (《中華人民共和國民法典》) promulgated by the National People's Congress (the "**NPC**") on May 28, 2020 and became effective on January 1, 2021, in the event of damages caused to other party due to the defects in a product, the infringed party may seek compensation from the manufacturer or the seller of such product and shall have the right to request the manufacturer and the seller to bear tortious liabilities, such as cessation of infringement, removal of obstruction, elimination of danger, etc.

The Law of the PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) was promulgated on October 31, 1993 and last amended on October 25, 2013, to protect consumers' rights when they purchase or use goods and accept services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to customers. Under the amendments made on October 25, 2013, all business operators must pay high attention to protecting customers' privacy and must strictly keep confidential any personal information of consumers obtained during their business operations.

## RELEVANT PRC LAWS AND REGULATIONS IN RELATION TO THE INDUSTRY

According to the Administrative Regulations for Compulsory Product Certification (《強制性產品認證管理規定》), which was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (the "**GAQSIQ**") (which merged into the State Administration for Market Regulation) on July 3, 2009 and amended on September 29, 2022, products specified by the state shall not be delivered, sold, imported or used in other business activities until they have been certified (the "**Compulsory Product Certification**") and labeled with China Compulsory Certification (中國強制認證) mark. For products that are subject to Compulsory Product Certification, the state implements unified product catalogs (the "**3C Catalog**"), unified compulsory requirements, standards and compliance assessment procedures in technical specification, unified certification marks and unified charging standards.

According to the Radio Regulation of the People's Republic of China (《中華人民共和國無線電管理條例》) jointly promulgated by the State Council of the People's Republic of China (the "**State Council**") and the Central Military Commission of the People's Republic of China on September 11, 1993 and amended on November 11, 2016, the State Radio Regulatory Commission (the "**SRRC**") is responsible for administration of non-military radio systems in China. Radio transmission equipment manufactured by enterprises must comply with the State Council's regulations on radio administration and must be registered with the national radio authority or local radio regulatory authorities.

On October 7, 1997, the SRRC and the State Bureau of Technical Supervision jointly promulgated the Administrative Regulations on Manufacturing of Radio Transmission Equipment (《關於生產無線電發射設備的管理規定》), which stipulates that a system must be implemented for the manufacturing of radio transmission equipment. The SRRC Office is required to audit the radio transmission equipment manufactured by an enterprise based on the transmitting characteristics of a particular model and, if the audit is passed, issue a Certificate of Approval of Radio Transmission Equipment Model and a model approval code. The model approval code shall be marked on the label of the equipment manufactured by the enterprise.

In addition, the Ministry of Industry and Information Technology (the "**MIIT**") promulgated the Administrative Measures for the Network Access of Telecommunications Equipment (《電信設備進網管理辦法》) on May 10, 2001, which was later amended by the MIIT on September 23, 2014, stipulating that the State shall implement a network access permit system for telecommunications terminal equipment, radio communications equipment, and equipment relating to network interconnections that are connected to public telecommunications networks. The telecommunications equipment subject to the network access permit system shall obtain the Telecommunications Equipment Network Access Permit (the "**Network Access Permit**") issued by the MIIT. Without the Network Access Permit, no telecommunications equipment is allowed to be connected to the public telecommunications network for use or sold on the domestic market. To apply for a Network Access Permit, manufacturers must submit a test report or a certificate of compulsory product certification issued by a telecommunications equipment testing institute. In the event of an application for the Network Access Permit for radio transmission equipment, a Certificate of Approval of Radio Transmission Equipment Model issued by the MIIT shall also be submitted.

In accordance with the Measures for the Supervision and Administration of Medical Devices Operation (as amended) (《醫療器械經營監督管理辦法》), which was promulgated by State Administration for Market Regulation on March 10, 2022 and became effective on May 1, 2022, enterprises engaged in the operation of Class II medical devices shall file with the food and drug administration authorities under the municipal government of the prefectural city where it operates. Enterprises engaged in the operation of Class III medical devices shall apply to the food and drug administration authorities under the municipal government of the prefectural city where it operates for operation permits. A medical device operation permit shall be valid for 5 years.

Pursuant to the Tendering and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》) (the "**Tendering and Bidding Law**") promulgated by the **SCNPC** on August 30, 1999 and revised on December 27, 2017 and effective from December 28, 2017, tenderers shall not collude with each other in setting bidding prices, nor shall they exclude other tenderers from fair competition and harm the lawful rights and interests of the tenderee and other tenderers. Tenderers shall not participate in the bidding competition by offering a price lower than the cost, nor shall they attempt to win the bid in the name of other persons or through other fraudulent means.

According to the Implementation Regulations for the Law of the People's Republic of China on Tenders and Bids (《中華人民共和國招標投標法實施條例》) which was last amended on March 2, 2019, and became effective on the same day, where the tender invitation and bidding activities of a project required by law to call for tenders violate the provisions of the Tendering and Bidding Law and these Regulations, and have a substantive influence on the outcome of award of tender, if it is impossible to adopt remedial measures to rectify, the tender invitation, bidding and award of tender shall be void, the tender exercise or bid evaluation shall be organized anew pursuant to the law.

According to the Law of the PRC on Government Procurement (《中華人民共和國政府採購法》) (the "**Procurement Law**") promulgated by the **SCNPC** on June 29, 2002 and which was last amended and implemented on August 31, 2014, the government procurement methods include public tender invitation, bidding invitation, competitive negotiation, single-source procurement, inquiry about quotations, and other methods confirmed by the department for supervision over government procurement under the State Council. Public invitation of bids shall be the principal

method of government procurement, and the term "government procurement" means the use of fiscal funds by all levels of State authorities, institutions and social organizations to procure goods, projects and services that fall within the catalog for centralized procurement formulated in accordance with the law or that are above the procurement limits. Pursuant to Article 73 of the Procurement Law, if any unlawful act made pursuant to Article 71 results in or may result in the supplier winning the bid, the procurement contract shall be canceled if it has not been performed.

## LAWS AND REGULATIONS IN RELATION TO THE PROTECTION OF CYBER SECURITY, DATA AND PRIVACY

The PRC government has enacted laws and regulations with respect to internet information security and protection of personal information from any abuse or unauthorized disclosure. Internet information in the PRC is regulated and restricted from a national security standpoint. The SCNPC enacted the Decision on the Maintenance of Internet Security (《關於維護互聯網安全的決定》) on December 28, 2000, which was amended on August 27, 2009, and may subject persons to criminal liabilities in the PRC for any attempt to undermine the safe operation of the internet, sabotage national security and social stability, hinder the order of the socialist market economy and social administration, or infringe personal, property and other legitimate rights and interests of individuals, legal persons and other organizations.

The Cyber Security Law of the People's Republic of China (《中華人民共和國網絡安全法》) (the "**Cyber Security Law**"), which was promulgated on November 7, 2016 and came into effect on June 1, 2017, requires that when constructing and operating a network, or providing services through a network, technical measures and other necessary measures shall be taken in accordance with laws, administrative regulations and the compulsory requirements set forth in national standards to ensure the secure and stable operation of the network, to effectively cope with cyber security events, to prevent criminal activities committed on the network, and to protect the integrity, confidentiality and availability of network data. The Cyber Security Law emphasizes that any individuals and organizations that use networks must not endanger network security or use networks to engage in activities endangering national security, economic order and social order or infringing the reputation, privacy, intellectual property rights and other lawful rights and interests of others. The Cyber Security Law also reiterates certain basic principles and requirements on personal information protection previously specified in other existing laws and regulations. Any violation of the provisions and requirements under the Cyber Security Law may subject an internet service provider to rectifications, warnings, fines, confiscation of illegal gains, revocation of business permit, cancellation of business license, closedown of websites or even criminal liabilities.

The Data Security Law of the People's Republic of China (《中華人民共和國數據安全法》) (the "**Data Security Law**") was passed by the Standing Committee of the 13th NPC at the 29th Session on June 10, 2021 and came into effect on September 1, 2021. The Data Security Law requires a data processor to establish and improve a whole-process data security management system, organize data security education and training, and take corresponding technical measures and other necessary measures to safeguard data security. In conducting data processing activities using the Internet or any other information networks, a data processor shall perform the above data security protection obligations on the basis of the hierarchical cybersecurity protection system. Any violation of the provisions and requirements under the Data Security Law may subject a data processor to rectifications, warnings, fines, suspension of the related business, revocation of business permit or even criminal liabilities.

The Personal Information Protection Law of the People's Republic of China (《中華人民共和國個人信息保護法》) (the "**Personal Information Protection Law**") was passed by the Standing Committee of the 13th NPC at the 30th Session on August 20, 2021 and came into effect on November 1, 2021. The Personal Information Protection Law reiterates the circumstances under which a personal information processor could process personal information and the requirements for such circumstances, such as when (1) the individual's consent has been obtained; (2) the processing is necessary for the conclusion or performance of a contract to which the individual is a party, or where it is necessary for carrying out human resource management pursuant to

employment rules legally adopted or a collective contract legally concluded; (3) the processing is necessary to fulfill statutory duties and statutory obligations; (4) the processing is necessary to respond to public health emergencies or protect natural persons' life, health and property safety under emergency circumstances; (5) where the personal information is processed within a reasonable scope to carry out any news reporting, supervision by public opinions or any other activity for public interest purposes; (6) where the personal information, which has already been disclosed by an individual or otherwise legally disclosed, is processed within a reasonable scope according to this law; or (7) under any other circumstance as provided by any law or regulation. It also stipulates the obligations of a personal information processor. Any violation of the provisions and requirements under the Personal Information Protection Law may subject a personal information processor to rectifications, warnings, fines, suspension of the related business, revocation of business licenses, being entered into the relevant credit record or even criminal liabilities.

In addition, the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》), promulgated by the SCNPC on December 28, 2012 with immediate effect, emphasizes the need to protect electronic information that contains individual identification information and other private data. This decision requires internet information services providers and other enterprises and public institutions to take technological and other necessary measures to ensure information security and to prevent any information leak, damage or loss of personal electronic information of citizens collected in the business activities. Furthermore, the Ministry of Industry and Information Technology's Rules on Protection of Personal Information of Telecommunications and Internet Users (《電信和互聯網用戶個人信息保護規定》), which was promulgated on July 16, 2013 and came into effect on September 1, 2013, contains detailed requirements on the collection and use of personal information as well as the security measures to be taken by internet information services providers. "Personal information" includes a user's name, birth date, identification card number, address, phone number, account name, password and other information that can be used for identifying a user either independently or in combination with other information as well as the time, place, etc. for the use of services by the users. Collection and use of user personal information by internet information service providers are subject to users' consent and should abide by the principles of legality, appropriateness and necessity and be within the specified methods, scopes and purposes that are required to be published by such internet information services providers. Internet information services providers and their staff members shall strictly keep confidential the personal information of users collected or used in the course of providing services, and shall not divulge, tamper with, damage, sell or illegally provide others with the same. Internet information services providers should also provide their staff with knowledge, skills and trainings relating to the protection of the personal information of users.

On September 15, 2018, the Ministry of Public Security issued the Regulations for Internet Security Supervision and Inspection by Public Security Organs (《公安機關互聯網安全監督檢查規定》) (the "**Inspection Regulations**") which took effect on November 1, 2018. Pursuant to the Inspection Regulations, public security authorities shall conduct supervision and inspections on the internet service providers and network users that provide the following services: (1) internet connection, internet data centers, content distributions and domain name services; (2) internet information services; (3) public internet access services; and (4) other internet services. The inspection may relate to whether the internet service providers and network users have fulfilled their cyber security obligations under applicable laws and regulations, such as to formulate and implement cyber security management systems and operational procedures, determine the person responsible for cyber security, and to take technical measures to record and retain user registration information and online log information, etc.

Pursuant to the Announcement of Launching Special Crackdown against Illegal Collection and Use of Personal Information by Apps (《關於開展App違法違規收集使用個人信息專項治理的公告》) that was issued and took effect on January 23, 2019, and the Guideline to the Self-Assessment of Illegal Collection and Use of Personal Information by Apps (《App違法違規收集使用個人信息自評估指南》) that was issued and took effect on March 3, 2019, the App operators shall check whether their privacy policies include the elements that are required to be disclosed to the users.

Internet information service providers may be subject to criminal penalty for failure to protect personal information. The Amendment IX to the Criminal Law of the People's Republic of China (《中華人民共和國刑法修正案(九)》), which was promulgated by the Standing Committee on August 29, 2015 and came into effect on November 1, 2015, provides that selling or providing personal information of citizens in violation of relevant national provisions shall be subject to criminal penalty.

On December 28, 2021, thirteen PRC governmental and regulatory agencies, including the CAC, promulgated the Measures for Cyber Security Review (《網絡安全審查辦法》), which was published on January 4, 2022, and came into effect on February 15, 2022. The Measures for Cyber Security Review specify that the procurement of network products and services by operators of critical information infrastructure and the activities of data processing carried out by Internet platform operators that raise or may raise "national security" concerns are subject to cyber security review by Office of Cyber Security Review established by the CAC. Before a critical information infrastructure operator purchases internet products and services, it should assess the potential risk of national security that may arise from using such products and services. If such use of products and services may give rise to national security concerns, it should apply for a cyber security review by the Cyber Security Review Office and a report of analysis of the potential effect on national security shall be submitted when the application is made. In addition, Internet platform operators that possess the personal data of over one million users must apply for a cyber security review by the Office of Cyber Security Review, if they intend to be listed in foreign countries. The CAC may voluntarily conduct cyber security review if any network products and services and activities of data processing affect or may affect national security. The cyber security review focuses on the assessment of the following risk factors: (i) the risk of critical information infrastructure being illegally controlled, interfered or destroyed as a result of the use of the products or services; (ii) the continuous harm to the business of critical information infrastructure by the interruption of provision of products or services; (iii) the security, openness, transparency, diversity of sources, reliability of supply and potential supply interruptions of products and services due to political, diplomatic or international trade issues; (iv) whether the products and services provider complies with PRC laws and regulations; (v) the risk of core data, important data or a large amount of personal information being stolen, leaked, destroyed, illegally utilized or transmitted outside the country; (vi) regarding to listing, risks of critical information infrastructure, core data, important data or a large amount of personal information being influenced, controlled or maliciously used by foreign governments, as well as network information security risks; and (vii) other factors that may endanger the security of critical information infrastructure, cyber security and data security. It may take approximately 70 business days in maximum for the general cybersecurity review upon the delivery of their applications, which may be subject to extensions for a special review. As confirmed by our Special PRC Legal Adviser, given that the number of personal information subjects involved in the personal information processing activities carried out by us is less than 1 million, all the data processed by the Company are stored in China, and [**REDACTED**] in Hong Kong is different from [**REDACTED**] in foreign countries, we believe that we are not required to apply for a cybersecurity review according to the Measures for Cyber Security Review. However, the regulations relating to cybersecurity review are constantly evolving, and future regulatory changes may impose additional requirements. We would pay close attention to any changes to the cybersecurity review regulations and take compliance measures in a timely manner.

On November 14, 2021, the Administration Regulations on Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the "**Draft Regulation**") was proposed by the CAC for public comments until December 13, 2021. The Draft Regulation reiterates that data processors which process the personal information of over one million users must apply for a cybersecurity review if they intend to be listed in foreign countries, and the Draft Regulation further require the data processors that carry out the following activities to apply for cybersecurity review in accordance with the relevant laws and regulations: (i) the merger, reorganization or division of internet platform operators that have gathered a large number of data resources related to national security, economic development and public interests that affects or may affect national security; (ii) listing of the data processor in Hong Kong that affects or may affect national security; and (iii) other data processing activities that affect or may affect national security. Any failure to comply with such requirements may subject us to, among others, suspension of services, fines, revocation of relevant business permits or business licenses and penalties. Since the CAC is still seeking comments on the Draft Regulation from the public as of the date of the Document, the Draft Regulation (especially its implementation provisions) and its anticipated adoption or effective date are subject to further changes with substantial uncertainty. According to the Draft Regulation, data processors who use networks to carry out data processing activities shall be subject to the Draft Regulation. As a data processor, we are required to perform the following obligations after the Draft Regulation is formally adopted:

- to establish and improve the data security management system and technical protection mechanism in accordance with the provisions of relevant laws and regulations;
- to conduct data processing activities in a manner that respects social morality and ethics and does not contravene prohibitions stipulated in the Draft Regulation or other laws and regulations;
- to comply with the requirements of cybersecurity classified protection system;
- to establish emergency response mechanisms for cyber security and data security, data security complaints and reporting channels and other relevant measures;
- to acquire personal information without authorization and to preserve relevant evidence for data collection, especially user consent; and
- to establish protocols to process personal information with clear and reasonable purposes and follow the principles of legality, rightfulness and necessity.

In addition, the MITT promulgated the "Measures for Data Security Management in the Industrial and Information Technology Sector (Trial)" 《工業和信息化領域數據安全管理辦法(試行)》(the "**Measures for Data Security Management**") on December 8, 2022, which came into effect on January 1, 2023. The Measures for Data Security Management stipulate that industrial and telecoms data processors shall implement hierarchical management of industrial and telecoms data, which will be classified into three levels according to the relevant regulations: general data, important data and core data. The Measures for Data Security Management also stipulate certain obligations of industrial and telecoms data processors in relation to the implementation of data security systems, key management, data collection, data storage, data usage, data transmission, data provision, data disclosure, data destruction, security audits and contingency planning.

During the Track Record Period and up to the Latest Practicable Date, we have implemented comprehensive internal policies and measures on protection of cybersecurity, data privacy and personal information to ensure continuous regulatory compliance. See "Business — Data Privacy and Security." As of the date of this document, we have not received any warning or sanction from applicable government authorities (including the CAC) with regard to our business operations concerning any issues related to cybersecurity and data security. In addition, we have not been involved in any penalty or other legal proceedings initiated by applicable governmental or regulatory authorities or third parties in relation to cyber security or data protection.

## LAWS AND REGULATIONS IN RELATION TO INTELLECTUAL PROPERTY

### Trademarks

The Trademark Law of the People's Republic of China (《中華人民共和國商標法》) (the"**Trademark Law**") became effective on March 1, 1983 and was last amended on April 23, 2019, and the Implementation Rules of the Trademark Law of the People's Republic of China (《中華人民共和國商標法實施條例》) became effective on September 15, 2002 and was last amended on April 29, 2014. The Trademark Law and its implementation rules provide the basic legal framework for the regulation of trademarks in the PRC, covering registered trademarks, including commodity trademarks, service trademarks, collective marks and certificate marks. Registered trademarks are protected under the Trademark Law and related rules and regulations. Trademarks are registered with the Trademark Office. Where registration is sought for a trademark that is identical or similar to another trademark that has already been registered or given preliminary examination and approved for use on the same or similar commodities or services, the application for registration of such trademark may be rejected. Trademark registrations are effective for a renewable ten-year period, unless otherwise revoked.

### Patents

Pursuant to the Patent Law of the People's Republic of China (《中華人民共和國專利法》) promulgated by the SCNPC on March 12, 1984, last amended on October 17, 2020 and effective from June 1, 2021 and the Implementation Rules of the Patent Law of the People's Republic of China (《中華人民共和國專利法實施細則》) promulgated by the State Council on June 15, 2001, and last amended on January 9, 2010, there are three types of patents, namely, invention, utility model and design. Invention patents are valid for twenty years, while design patents are valid for fifteen years and utility model patents are valid for ten years, from the date of application. The PRC patent system adopts a "first come, first file" principle, which means that where more than one persons file a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. Unless otherwise stipulated by relevant laws and regulations, a third party must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

### Copyright and Software Copyright

Copyright (including software copyright) is mainly protected by the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》) as promulgated on September 7, 1990 and latest amended on November 11, 2020 by the SCNPC and the Implementing Rules of the Copyright Law of the People's Republic of China (《中華人民共和國著作權法實施條例》) as promulgated on August 2, 2002 and latest amended on January 30, 2013 by the State Council. Such law and rules prescribe that Chinese citizens, legal persons or other organizations enjoy copyright protection over their works, whether published or not, in the domain of literature, art and science.

In addition, internet activities, products disseminated over the internet and software products also enjoy copyright. Pursuant to the Regulation on Protection of Computer Software (《計算機軟件保護條例》) promulgated by the State Council on June 4, 1991 and last amended by the State Council on January 30, 2013, the China Copyright Protection Center shall grant certificates of registration to computer software copyright applicants in compliance with the Regulation on Protection of Computer Software.

### Domain Names

Internet domain name registration and related matters are regulated by the Administrative Measures on Internet Domain Names (《互聯網域名管理辦法》) promulgated by Ministry of Industry and Information Technology on August 24, 2017 and became effective on November 1, 2017, and the Implementation Rules for the Registration of National Top-level Domain Names (《國家頂級域名註冊實施細則》) promulgated by China Internet Network Information Center and became effective on June 18, 2019. Domain name owners are required to register their domain names and the

Ministry of Industry and Information Technology is in charge of the administration of PRC internet domain names. The domain name services follow a "first come, first file" principle. The applicants will become the holders of such domain names upon the completion of the registration procedure.

## LAWS AND REGULATIONS IN RELATION TO LABOR PROTECTION, SOCIAL INSURANCE AND HOUSING PROVIDENT FUNDS

### General Labor Contract Rules

Labor contracts must be concluded in writing if labor relationships are to be or have been established between enterprises, individual economic organizations, private non-enterprise entities, etc. and the employees under the Labor Contract Law of the People's Republic of China (《中華人民共和勞動合同法》) promulgated on June 29, 2007 and last amended on December 28, 2012. Employers are forbidden to force employees to work overtime or to do so in a disguised manner and employers must pay employees overtime wages in accordance with national regulations. In addition, wages may not be lower than local standards on minimum wages and must be paid to the employees timely. According to the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) promulgated on July 5, 1994 and last amended on December 29, 2018, employers shall establish and improve a system of labor safety and sanitation and shall strictly abide by national rules and standards on labor safety and sanitation as well as educate employees on labor safety and sanitation so as to prevent accidents during work and reduce occupational hazards. Labor safety and sanitation facilities shall comply with national standards. The employers must also provide employees with labor safety and sanitation conditions that are in compliance with national standards and necessary articles for labor protection.

### Social Insurance and Housing Provident Fund

According to the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) passed by the SCNPC on October 28, 2010 and amended on December 29, 2018, each employer and individual in the PRC shall make social insurance contributions, including basic pension insurance, basic medical insurance, work injury insurance, unemployment insurance and maternity insurance. An employer who fails to promptly pay social insurance contributions in full amount shall be ordered to pay or supplement within a prescribed period, and shall be subject to a late payment fine computed from the due date at the rate of 0.05% per day; where payment is not made within the stipulated period, the relevant administrative authorities shall impose a fine ranging from one to three times the amount of the amount in arrears.

According to the Administrative Regulations on the Housing Provident Fund (《住房公積金管理條例》) passed by the State Council on April 3, 1999 and latest amended on March 24, 2019, each employer and individual in the PRC shall make housing provident fund contributions. Where, in violation of the provisions of the regulations, an employer is overdue in the contribution of, or underpays, the housing provident fund, the housing provident fund management center shall order it to make the contribution within a prescribed time limit; where the contribution has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

## LAWS AND REGULATIONS IN RELATION TO FOREIGN EXCHANGE

The principal law governing foreign currency exchange in the PRC is the Regulations of the People's Republic of China on Foreign Exchange Administration (《中華人民共和國外匯管理條例》) (the "**Foreign Exchange Regulations**") promulgated on January 29, 1996 and latest amended on August 5, 2008. According to the Foreign Exchange Regulations currently in effect, international payments in foreign currencies and transfers of foreign currencies under current account shall not be subject to any state control or restriction. Foreign currency transactions under the capital account, such as direct investment and capital contribution, are still subject to restrictions and require approvals from, or registration with, the foreign exchange administrative authorities.

According to the Circular of the State Administration of Foreign Exchange on Issues concerning the Administration of Foreign Exchange Involved in Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) announced by the State Administration of Foreign Exchange (the "**SAFE**") on February 1, 2005 and amended on December 26, 2014, the SAFE and its branch offices and administrative offices shall oversee, regulate and inspect domestic companies regarding their business registration, opening and use of accounts, trans-border payments and receipts, exchange of funds and other conduct involved in overseas listing. The domestic company shall, within fifteen working days upon the end of its overseas public offering, handle registration formalities for overseas listing with the foreign exchange authority at its place of registration with the required materials.

According to the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies for the Administration over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), the foreign exchange receipts under capital accounts of domestic institutions are subject to discretionary settlement policies. The foreign exchange receipts under capital accounts (including foreign exchange capital, foreign debts, and repatriated funds raised through overseas listing) subject to discretionary settlement as expressly prescribed in the relevant policies may be settled with banks according to the actual need of the domestic institutions for business operation. Domestic institutions may, at their discretion, settle up to 100% of foreign exchange receipts under capital accounts for the time being. The SAFE may adjust the above proportion in due time according to balance of payments. While being eligible for discretionary settlement of foreign exchange receipts under capital accounts, domestic institutions may also opt to use their foreign exchange receipts according to the payment-based settlement system. A bank shall, in handling each transaction of foreign exchange settlement for a domestic institution according to the principle of payment-based settlement, review the authenticity and compliance of the use of the funds settled in the previous foreign exchange settlement (including discretionary settlement and payment based settlement) of such domestic institution. Domestic institutions' foreign exchange receipts under the capital account and the RMB funds obtained from the settlement thereof shall not, directly or indirectly, be used for expenditure beyond the enterprise's business scope or expenditure prohibited by laws and regulations of the state. Unless otherwise specified, the funds shall not, directly or indirectly, be used for investments in securities or other investments or wealth management other than banks' principal-secured products. The funds shall not be used for the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business scope. The funds shall not be used for the construction or purchase of real estate for purposes other than self-use (except for real estate enterprises).

According to the Circular on Optimizing Administration of Foreign Exchange to Support the Development of Foreign-related Business by the State Administration of Foreign Exchange (《國家外匯管理局關於優化外匯管理支持涉外業務發展的通知》) issued by the SAFE on April 10, 2020, eligible enterprises are allowed to make domestic payments by using receipts under capital accounts, such as their capital funds, foreign credits and the income from overseas listing, with no need to provide the evidentiary materials concerning authenticity on a transaction-by-transaction basis to banks in advance, provided that their capital use shall be authentic and in line with provisions, and conform to the prevailing administrative regulations on the use of receipts under capital accounts. Local foreign exchange authorities shall strengthen monitoring analysis and interim and post regulation.

## LAWS AND REGULATIONS IN RELATION TO TAXATION

### PRC Enterprise Income Tax Law

According to the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》), as promulgated on March 16, 2007 and last amended on December 29, 2018, and the Implementing Rules of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》), as promulgated on December 6, 2007 and last amended on April 23, 2019 (collectively the "**Enterprise Income Tax Law**"), enterprise income

taxpayers shall include resident and non-resident enterprises. Resident enterprise refers to an enterprise that is established within China, or is established under the law of a foreign country (region) but whose actual institution of management is within China. Non-resident enterprise refers to an enterprise established under the law of a foreign country (region), whose actual institution of management is not within China but has offices or establishments within China; or which does not have any offices or establishments within China but has incomes sourced from China. The rate of enterprise income tax shall be 25%. Qualified small low-profit enterprises are given the reduced enterprise income tax rate of 20%.

According to the Circular of the Ministry of Finance and the State Administration of Taxation on Implementing the Inclusive Tax Deduction and Exemption Policies for Small and Micro Enterprises (《財政部稅務總局關於實施小微企業普惠性稅收減免政策的通知》) promulgated on January 17, 2019, during January 1, 2019 to December 31, 2021, the annual taxable income of a small low-profit enterprise that is not more than RMB1 million shall be included in its taxable income at the reduced rate of 25%, with the applicable enterprise income tax rate of 20%; and the annual taxable income that is not less than RMB1 million but not more than RMB3 million shall be included in its taxable income at the reduced rate of 50%, with the applicable enterprise income tax rate of 20%.

Enterprises that are recognized as high-tech enterprises in accordance with the Administrative Measures for Accreditation of High-tech Enterprises (《高新技術企業認定管理辦法》) are entitled to enjoy the preferential enterprise income tax rate of 15%. The validity period of the high-tech enterprise qualification shall be three years from the date of issuance of the certificate of high-tech enterprise. After the certificate expires, the enterprise can re-apply for such recognition as a high-tech enterprise.

**Value-Added Tax**

According to the Interim Value-Added Tax Regulations of the People's Republic of China (《中華人民共和國增值稅暫行條例》), as announced by the State Council on December 13, 1993 and latest amended on November 19, 2017, entities and individuals selling goods, providing labor services of processing, repairing or maintenance, selling services, intangible assets, real property in China, and importing goods to China, shall be identified as taxpayers of value-added tax.

Unless otherwise provided by laws, the value-added tax rate is: 17% for taxpayers selling goods, labor services, or tangible movable property leasing services or importing goods; 11% for taxpayers selling transportation, postal, basic telecommunication, construction, immovable property or immovable property leasing services, transferring the land use rights, or selling or importing specific goods; 6% for taxpayers selling services or intangible assets; 0% for domestic entities and individuals selling services or intangible assets within the scope prescribed by the State Council across national borders; and 0% for exported goods, except as otherwise specified by the State Council.

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) promulgated by the Ministry of Finance and the State Administration of Taxation on March 23, 2016 and amended on July 11, 2017 and March 20, 2019 respectively, the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax.

According to the Circular on Policies for Simplifying and Consolidating Value-added Tax Rates (《財政部、國家稅務總局關於簡並增值稅稅率有關政策的通知》) announced by the Ministry of Finance and the State Administration of Taxation on April 28, 2017, the structure of value-added tax rates will be simplified and consolidated from July 1, 2017, and the 13% value-added tax rate shall be canceled. The scope of goods with 11% value-added tax rate and the provisions for deducting input tax are specified.

According to the Circular on Adjusting Value-added Tax Rates (《財政部、國家税務總局關於調整增值税税率的通知》) announced by the Ministry of Finance and the State Administration of Taxation on April 4, 2018, from May 1, 2018, where a taxpayer engages in a value-added tax taxable sales activity or imports goods, the previous applicable 17% and 11% tax rates are adjusted to be 16% and 10% respectively.

According to the Announcement of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值税改革有關政策的公告》) promulgated on March 20, 2019, with respect to value-added tax taxable sales or imported goods of a value-added tax general taxpayer, the originally applicable value-added tax rate of 16% shall be adjusted to 13%; and the originally applicable value-added tax rate of 10% shall be adjusted to 9%.

According to the Announcement on Further Enhancing the Implementation of the End-of-Period Value-Added Tax Refund Policy (Announcement No. 14 [2022] of the Ministry of Finance and the State Administration of Taxation) (《關於進一步加大增值税期末留抵退税政策實施力度的公告》(財政部、税務總局公告2022年第14號)) issued by the Ministry of Finance and the State Administration of Taxation in March 2022, eligible enterprises in manufacturing and other industries may apply to the competent tax authorities for refund of the remaining recoverable value-added tax from the tax declaration period in April 2022. Taxpayers who have benefited from the value-added tax refunds policy of "immediate refund upon collection" (即徵即退) and "levy and refund later" (先徵後返(退)) since April 2019 may apply for End-of-Period Value-Added Tax Refund, provided that, taxpayers shall apply after returning all the Value-added Tax refunds enjoyed since April 2019 to relevant tax authorities before October 31, 2022 in one go.

**Transfer pricing**

Pursuant to the EIT Law, the business transactions between enterprises and their affiliates that reduce the taxable income or income of such enterprises and their affiliates are not in compliance with the arm's length principle, the taxation authority has the right to make an adjustment with reasonable methods. Where enterprises submit to the tax authority the annual enterprise income tax return, they shall enclose a statement of the annual business transactions in respect of the business transactions of the enterprises and their affiliates. If an enterprise fails to provide the information of business transactions with their affiliates, or provides false or incomplete information, which cannot faithfully reflect their affiliated business transactions, the tax authority has the right to verify its taxable income legally. The additional tax payment and the interest thereupon shall be collected when required by a tax authority in respect of the tax payment adjustment. In addition, in accordance with the Implementation Rules, the taxation authorities shall have the right to make the aforesaid tax adjustment within 10 years as from the tax year when such transactions are happened.

According to the Administrative Measures for Special Tax Audits and Adjustments and the Mutual Agreement Procedure (《特別納税調查調整及相互協商程序管理辦法》) promulgated by the State Administration of Taxation on March 17, 2017 and which became effective on May 1, 2017, tax authorities shall carry out special tax adjustments-focused monitoring and administration of enterprises, and may issue a Notice of Tax Matters to enterprises found with any special tax adjustment risks to prompt their existing tax risks. Enterprises can also make a self-adjustment and pay the underpaid tax, and the tax authorities can still perform special tax audits and adjustments thereafter.

Tax authorities shall initiate the special tax audit procedure upon request by an enterprise for confirmation of its tax position on special tax adjustment items, such as the pricing principle or method adopted for related-party transactions.

Pursuant to the Administration of Tax Collection Law of the PRC (《中華人民共和國税收徵税管理 法》) promulgated by the SCNPC on September 4, 1992 and last amended on April 24, 2015, if a taxpayer fails to pay taxes or a withholding agent fails to remit taxes within the time limit in accordance with the provisions, the relevant tax authorities may impose a fine on a daily basis at the rate of 0.05% of the amount of tax in arrears, commencing on the day the tax payment was defaulted. For taxpayers who evade taxes, the tax authorities may impose a fine not less than 50% of and not more than five times the amount of taxes unpaid or underpaid. Criminal liability may be incurred in serious cases.

## LAWS AND REGULATIONS IN RELATION TO ENVIRONMENTAL PROTECTION AND FIRE

### Environment Protection

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), which was promulgated by the SCNPC on December 26, 1989, came into effect on the same day and last amended on April 24, 2014, outlines the authorities and duties of various environmental protection regulatory agencies. The Ministry of Environmental Protection is authorized to issue national standards for environmental quality and discharge of pollutants, and to monitor the environmental protection scheme of the PRC. Meanwhile, local environment protection authorities may formulate local standards for discharge of pollutants which are more rigorous than the national standards, in which case, the concerned enterprises must comply with both the national standards and the local standards.

### Environmental Impact Appraisal

According to the Administration Rules on Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), which was promulgated by the State Council on November 29, 1998 and last amended on July 16, 2017, depending on the impact of the construction project on the environment, an construction employer shall submit an environmental impact report or an environmental impact statement, or file a registration form. As to a construction project, for which an environmental impact report or the environmental impact statement is required, the construction employer shall, before the commencement of construction, submit the environmental impact report or the environmental impact statement to the relevant authority at the environmental protection administrative department for approval. If the environmental impact assessment documents of the construction project have not been examined or approved upon examination by the approval authority in accordance with the law, the construction employer shall not commence the construction.

According to the Environmental Impact Appraisal Law of PRC (《中華人民共和國環境影響評價法》), which was promulgated by the SCNPC on October 28, 2002 and last amended on December 29, 2018, for any construction projects that have an impact on the environment, the construction employer is required to prepare an environmental impact report or an environmental impact statement, or file a registration form depending on the seriousness of effect that may be exerted on the environment.

### Pollutant Discharge

Pursuant to the Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) (《排污許可管理辦法(試行)》) promulgated on January 10, 2018 and partially revised on August 22, 2019 by the Ministry of Ecology and Environment (the "**MEE**"), enterprises and public institutions as well as other producers and operators included in the Catalog of Classified Administration of Pollutant Discharge License for Stationary Pollution Sources shall apply for and obtain a pollutant discharge license within a prescribed time limit. Any enterprise that fails to obtain a pollutant discharge license as required shall not discharge pollutants.

According to the Catalog of Classified Administration of Pollutant Discharge License for Stationary Pollution Sources (2019 Version) (《固定污染源排污許可分類管理名錄(2019年版)》) issued by the MEE on December 20, 2019, key management, simplified management and registration

management of pollutant discharge permits are implemented according to factors including the amount of pollutants generated, the amount of pollutants discharged, the degree of impact on the environment, etc., and only pollutant discharge entities that implement registration management do not need to apply for a pollutant discharge permit.

The State Council issued the Regulation on Pollutant Discharge Permit Administration (《排污許可管理條例》) on January 24, 2021 to enhance the pollutant discharge administration. The administration on pollutant discharge units are divided into key management and simplified management pursuant to amount of pollutants generated, the amount of pollutants discharged and the degree of impact on the environment. The review, decision and information disclosure of pollutant discharge licenses shall be handled through the management information platform of the national pollutant discharge license. The pollutant discharge license is valid for 5 years and the discharging units should apply for renewal 60 days before the expiry pollutant discharge permit if they need to discharge pollutants on a continuous basis.

**Acceptance Inspection on Environmental Protection Facilities**

The Administration Rules on Environmental Protection of Construction Projects requires that upon completion of construction for which an environment impact report or environment impact statement is formulated, the constructor shall conduct acceptance inspection of the environmental protection facilities pursuant to the standards and procedures stipulated by the environmental protection administrative authorities of the State Council, formulate the acceptance inspection report, and disclose to the public the acceptance inspection report pursuant to the law, except for circumstances where there is a need to keep confidentiality pursuant to the provisions of the State. Where the environmental protection facilities have not undergone acceptance inspection or failed on acceptance inspection, the construction project shall not be put into production or use.

**Fire Prevention Design and Acceptance**

The Fire Prevention Law of the PRC (《中華人民共和國消防法》) (the "**Fire Prevention Law**") was issued on April 29, 1998, became effective on September 1, 1998 and last amended on April 29, 2021. According to the Fire Prevention Law, for special construction projects stipulated by the housing and urban-rural development authority of the State Council, the developer shall submit the fire safety design documents to the housing and urban-rural development authority for examination, while for construction projects other than those stipulated as special development projects, the developer shall, at the time of applying for the construction permit or approval for work commencement report, provide the fire safety design drawings and technical materials which satisfy the construction needs. According to Interim Regulations on Administration of Examination and Acceptance of Fire Control Design of Construction Projects (《建設工程消防設計審查驗收管理暫行規定》) issued by the Ministry of Housing and Urban-Rural Development of the PRC on April 1, 2020, an examination system for fire prevention design and acceptance only applies to special construction projects, and for other projects, a record-filing and spot check system would be applied.

## LAWS AND REGULATIONS IN RELATION TO EXPORTATION OF GOODS

According to the Regulations of the PRC on the Administration of Import and Export of Goods (《中華人民共和國貨物進出口管理條例》) promulgated by the State Council on December 10, 2001 which came into effect on January 1, 2002, the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) promulgated by the SCNPC on May 12, 1994 which came into effect on July 1, 1994 and last amended on November 7, 2016, the Customs Law of the PRC (《中華人民共和國海關法》) promulgated by the SCNPC on January 22, 1987 which came into effect on July 1, 1987 and last amended on April 29, 2021, the Measures for Record Filing and Registration by Foreign Trade Dealer (《對外貿易經營者備案登記辦法》) promulgated by MOFCOM on June 25, 2004, which came into effect on July 1, 2004 and last amended on May 10, 2021 and the Administrative Provisions of the Customs of the People's Republic of China on Record-filing of Customs Declaration Entities (《中華人民共和國海關報關單位備案管理規定》) promulgated by the General Administration of Customs of the PRC on November 19, 2021 which came into effect on January

1, 2022, foreign trade business operators engaging in the import or export of goods or technology must go through the record filing and registration formalities with the MOFCOM or the agency entrusted by the MOFCOM. Unless otherwise provided, the declaration of import or export goods and the payment of duties may be made by the consignees or consignors themselves, or by entrusted customs brokers. Customs declaration entities refer to consignees or consignors of imported or exported goods or customs brokers that have filed for record with Customs. Customs declaration entities may conduct customs declaration business within the customs territory of the PRC.

## HONG KONG LAWS AND REGULATIONS

### Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong)

The Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong) requires every person carrying on any business to make application to the Commissioner of Inland Revenue in the prescribed manner for the registration of that business. The Commissioner of Inland Revenue must register each business for which a business registration application is made and as soon as practicable after the prescribed business registration fee and levy are paid, issue a business registration certificate or branch registration certificate for the relevant business or the relevant branch as the case may be.

### Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong)

The Inland Revenue Ordinance ("**IRO**") is an ordinance for the purposes of imposing taxes on property, earnings and profits in Hong Kong. The IRO provides, among others, that persons, which include corporations, partnerships, trustees and bodies of persons, carrying on any trade, profession or business in Hong Kong are chargeable to tax on all profits (excluding profits arising from the sale of capital assets) arising in or derived from Hong Kong from such trade, profession or business. As at the Latest Practicable Date, the standard profits tax rate for corporations is at 8.25% on assessable profits up to HK$2,000,000 and 16.5% on any part of assessable profits over HK$2,000,000. The IRO also contains provisions relating to, among others, permissible deductions for outgoings and expenses, set-offs for losses and allowances for depreciation.

### Laws relating to Transfer Pricing

The Inland Revenue Department ("**IRD**") may make transfer pricing adjustments by disallowing expenses incurred by Hong Kong residents under sections 16(1), 17(1)(b) and 17(1)(c) of the IRO and challenging the entire arrangement under general anti-avoidance provisions such as sections 61 and 61A of the IRO if the IRD considers that the related party transactions are not conducted on an arm's length basis.

In December 2009, the IRD released Departmental Interpretation and Practice Notes No. 46 ("**DIPN 46**"). DIPN 46 provides clarifications and guidance on the IRD's views on transfer pricing and how it intends to apply the existing provisions of the IRO to establish whether related parties are transacting at arm's length prices. In general the practices followed by the IRD are based on the transfer pricing methodologies recommended by the OECD Transfer Pricing Guidelines.

In April 2009, the IRD released Departmental Interpretation and Practice Notes No. 45 ("**DIPN 45**"). DIPN 45 provides that where double taxation arises as a result of transfer pricing adjustments made by the tax authorities of another country, a Hong Kong taxpayer may potentially claim relief under the treaty between Hong Kong and that country (countries that entered into tax arrangements with Hong Kong includes the PRC).

Furthermore, the Hong Kong Government has gazetted the Inland Revenue (Amendment) (No. 6) Ordinance 2018 (the "**Amendment Ordinance**") on 13 July 2018. The main objectives of the Amendment Ordinance are to codify the transfer pricing principles and implement certain measures under the Base Erosion and Profit Shifting ("**BEPS**") package promulgated by the Organisation for Economic Co-operation and Development, such as the transfer pricing documentation requirements. The BEPS package seeks to counter the exploitation of gaps and mismatches in tax rules by multinational enterprises to artificially shift profits to low or no-tax locations where there are little or no economic activity.

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

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

(i) Total revenue for the accounting period not exceeding HK$400 million;

(ii) Total assets at the end of the accounting period not exceeding HK$300 million;

(iii) No more than 100 employees on average.

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

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

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

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

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

If all types of controlled transactions for the relevant accounting period are not required to be covered in local files, neither of the following is required to be prepared or retained by a taxpayer:

(i) Local file for the accounting period;

(ii) Master file for the corresponding accounting period.

**ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT'S ("OECD") GUIDELINES**

The Organisation for Economic Co-operation and Development (the "**OECD**"), an organization for international cooperation, promulgated the transfer pricing guidelines for multinational enterprises and tax administrations (the "**OECD Guidelines**"), which is consistent with the transfer pricing regulations in the tax jurisdictions involved in our intra-group transactions including PRC, the United States and Hong Kong.

The OECD Guidelines provide that the arm's length standard should be used to establish transfer prices between associated enterprises.

The arm's length standard is applied by comparing controlled transactions with transactions between independent enterprises based on "economically relevant characteristics". Comparability is achieved if: (i) no differences between the controlled and uncontrolled transactions exist; (ii) the differences that do exist do not materially affect the condition being examined; or (iii) reasonably accurate quantitative adjustments can be made to eliminate the effect of any differences.

The methods presented in the OECD Guidelines can be categorised into three groups:

- Comparable uncontrolled price/transaction methods
- Other traditional transaction methods, including resale price and cost plus
- Transaction profit methods, including profit split and transaction net margin

The OECD Guidelines state that the objective is to select the method "that is apt to provide the best estimation of an arm's length price". Notwithstanding this overall objective, the OECD Guidelines adopt the "most appropriate method to the circumstances of the case" principle for the selection of transfer pricing method.

It is also acknowledged that the OECD Guidelines establish the hierarchy between the traditional transaction methods and transactional profit methods when both can be applied in an "equally reliable manner" that the traditional transaction methods should be selected.

## INTERNATIONAL SANCTIONS LAWS AND REGULATIONS

Set out below is a summary of the sanctions regimes implemented by the U.S., the E.U., the U.K., the U.N. and Australia. This summary does not intend to set out the relevant sanctions laws and regulations in their entirety.

### United States Economic Sanctions Laws

OFAC administers and enforces U.S. primary sanctions programs, and violation of primary sanctions carries monetary and criminal penalties. It has also enacted secondary sanctions targeting non-U.S. Persons who are engaged in certain defined activities.

#### *Primary Sanctions*

In general, U.S. primary sanctions apply to U.S. Persons or activities involving a U.S. nexus (e.g., funds transfers in U.S. currency even if performed by non-U.S. Persons). U.S. primary sanctions may also be applied to non-U.S. Persons who cause U.S. Persons to violate sanctions or otherwise facilitate the violation of some sanctions programs. In addition, U.S. primary sanctions prohibit U.S. Persons, wherever located, from approving, financing, facilitating or guaranteeing any transaction by a foreign person where the transaction by that foreign person would be prohibited if performed by a U.S. Person or within the United States. This is generally known as the prohibition on "*facilitation*".

There are two types of U.S. primary sanctions programs – "country based" programs and "list based" programs. Violations of either type can result in "*strict*" civil liability (not a negligence standard) where fines and penalties may be imposed. In addition, willful violations may result in criminal liability, punishable by imprisonment and elevated fines.

"Comprehensive country-based" sanctions programs prohibit U.S. Persons from dealing in any manner with a Comprehensively Sanctioned Country and their governments. "Limited country-based" sanctions programs, which are often referred to as "sectoral sanctions," prohibit U.S. Persons from participating in certain types of transactions with particular persons related to the sanctioned country and their governments. "*List based*" programs prohibit U.S. Persons from dealing with or facilitating dealings with individuals, entities and organizations that have been designated as SDNs by the OFAC.

#### *Secondary Sanctions*

The U.S. has also enacted secondary sanctions targeting non-U.S. Persons who are engaged in certain defined activities. Secondary sanctions grant broad discretion to the U.S. President and his delegated representatives to deny access to the U.S. economic system to non-U.S. Persons who have been determined to engage in the specified transaction. The imposition of penalties under secondary sanctions legislation is a mechanism that the U.S. employs to punish and deter non-U.S. parties from certain behavior and transactions.

**United States Export Control Regulations**

Unlike U.S. economic sanctions that apply based on the persons involved, U.S. export controls apply based on the product involved. Any item that is sent from the U.S. to a foreign destination is an export. "Items" include commodities, software or technology, circuit boards, blue prints, design plans, retail software packages and technical information. The method by which an item is exported does not matter in determining export license requirements. For example, an item can be sent by regular mail, hand-carried on an airplane, or sent via facsimile; software can be uploaded to or downloaded from an Internet site; or technology can be transmitted via e-mail or during a telephone conversation. Regardless of the method used for the transfer, the transaction is considered an export (or a re-export if such U.S.-origin item is transferred from one foreign country to another).

The BIS regulates the exports, re-exports and transfer (in-country) of commercial and dual-use products, software and technology. These controls are authorized by the Export Administration Act of 1979, as amended and extended, and implemented by the EAR.

The EAR applies to exports of commodities, software and technical data from the U.S. to foreign countries, to re-exports from one foreign country to another, and to in-country transfer from one person to another person that occurs outside the United States within a single foreign country. According to § 734.9 of the EAR, foreign-produced items located outside the United States are subject to the EAR when they are a "direct product" of specified "technology" or "software," or are produced by a plant or 'major component' of a plant that itself is a "direct product" of specified "technology" or "software" (the so called "**FDP rule**"). If a foreign-produced item is subject to the EAR, the license requirements may apply to that item based on its item classification, destination, end-use, and end-user in the relevant transaction. Not all transactions involving foreign-produced items that are subject to the EAR require a license. Those transactions that do require a license may be eligible for a license exception. As of 30 April 2023, there were a number of FDP rules in force, including Russia FDP rule, Russia-Military FDP rule, Advanced computing FDP rule, and "Supercomputer" FDP rule.

The common Russia-related FDP rule (15 CFR §§ 746.8(a)(2) and 734.9(f)) provides that a foreign-produced item is subject to the EAR if it is:

(i) a direct product of U.S.-origin technology or software classified under any ECCN on the CCL (or produced by a plant or "major component" of a plant that is itself a direct product of such U.S. technologies and software);

(ii) is identified in Supplement 6 to Part 746 or has an export classification other than EAR99; and

(iii) is known to be destined for Russia.

This rule applies to any end-user in Russia, while another more restrictive FDP rule (15 CFR §§ 746.8(a)(3) and 734.9(g)) applies when there is knowledge that the foreign-produced item is a direct product of any technology or software on the CCL (or produced by a plant or "major component" of a plant that is itself a direct product of such U.S. technologies and software) and "will be incorporated into, or used in the 'production' or 'development' of any 'part,' 'component,' or 'equipment' produced, purchased, or ordered by an entity" that is designated as a Russian military end-user on the Entity List.

In addition, under the BIS export control rules targeting advanced computing chips, supercomputers and semiconductor manufacturing equipment, the following items are subject to the EAR and BIS licensing requirement: certain advanced and high-performance computing chips, commodities that contain such chips, semiconductor manufacturing equipment, and software and technology associated with these items (15 CFR. §§ 740.2, 740.10, 742.6, and Part 774, Supplement No. 1). Certain semiconductor manufacturing and supercomputer items are also subject to end-user/end-use controls (15 CFR. §§ 744.1 and 744.23).

Furthermore, there are three China-related FDP rules basically subjecting to EAR and licensing requirement items that meet both the product scope (i.e., a direct product of technology or software subject to the EAR and specified in certain ECCNs) and certain end-user/end-use/destination scope (i.e., end user on the Entity List).

Finally, the EAR applies to shipments from one foreign country to another of foreign-made products that incorporate more than de minimis amount of controlled U.S. origin parts, components or materials, or are the foreign direct product of certain controlled U.S. technology. The de minimis threshold varies, from 25% for most countries to less than 10% for Iran (other Comprehensively Sanctioned Countries have the 10% threshold), and what items are considered controlled (and thus are included in the de minimis calculation) also varies.

**United Nations Sanctions Regimes**

The U.N. can take action to maintain or restore international peace and security under Chapter VII of the U.N. Charter. It does this by way of resolutions passed by the U.N. Security Council. U.N. Security Council sanctions have taken a number of different forms and have measures ranging from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions.

There are 14 ongoing U.N. sanctions regimes which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism. Each regime is administered by a sanctions committee chaired by a non-permanent member of the Security Council.

U.N. Security Council Resolutions are binding upon U.N. member states but are not enforceable against private parties. U.N. member states are therefore required to implement U.N. sanctions. The domestic laws of U.N. member states will determine how sanctions imposed by the U.N. Security Council are implemented and enforced against private parties.

**European Union Sanctions Regimes**

The E.U. has over 47 different sanctions regimes in place. The E.U. implements all sanctions adopted by the U.N. Security Council. The E.U. may also reinforce U.N. sanctions by applying measures in addition to those imposed by the U.N. Security Council and/or impose sanctions on its own initiative.

All E.U. sanctions apply: (a) within the E.U. (including its airspace); (b) on board any aircraft or vessel under the jurisdiction of any E.U. Member State; (c) to any E.U. national, regardless of where they are resident/located; (d) to any legal person, entity or body which is incorporated/constituted under the laws of any E.U. Member State, irrespective of their location, including unincorporated branches, but not entities incorporated outside the E.U. (except that European parent companies are still liable for the activities conducted by their non-European subsidiaries where they have cleared or green-lighted such activities); and (e) to any legal person, entity or body in respect of any business done in the E.U.

E.U. sanctions are implemented through E.U. regulations, which are directly applicable in the member states of the E.U. and do not require further implementing legislation on a national level. Each member state sets its own penalties for breaches of E.U. sanctions. This is generally done by way of national legislation.

**European Union Export Control Rules**

E.U. export controls consist of a combination of E.U.-wide rules pursuant to E.U. legislation and national rules applied by individual E.U. Member States. These rules predominantly implement export controls on items agreed pursuant to international frameworks to which the E.U. or its member states are party.

E.U. export controls apply to both tangible and intangible exports of controlled items. Each of these controlled items will be classified under a relevant export control regime, with a specific control entry number; otherwise, the item will be classified as "NLR" (no licence required).

E.U. export control rules can also apply to exports of non-listed items if there is knowledge, awareness or, in some cases, suspicion of a sensitive end use (known as "catch all" end-use controls). This includes certain end uses relating to the military sector or weapons of mass destruction.

The two main export control regimes in the E.U. are those in relation to: (i) dual-use export controls (i.e. items that can be used for commercial or civilian purposes but also for military purposes); and (ii) military export controls, generally in relation to listed items that are specially designed or modified for military use.

**United Kingdom**

The U.K. operates its own sanctions regime after its Brexit from the E.U. U.K. sanctions laws apply: (a) within the territory and territorial waters of the U.K. and to all U.K. persons, wherever they are in the world; (b) to all individuals and legal entities who are within or undertake activities within the U.K.'s territory; and/or (c) to all U.K. nationals and U.K. legal entities established under U.K. law, including their non-U.K. branches (but not separately incorporated non-U.K. subsidiaries), irrespective of where their activities take place.

The Office of Financial Sanctions Implementation maintains two lists of those subject to financial sanctions: (a) the "consolidated list" includes all designated persons subject to financial sanctions under E.U. and U.K. legislation, as well as those subject to U.N. sanctions which are implemented through E.U. regulations; and (b) a separate list of entities subject to specific capital market restrictions. OFSI also has the power to impose financial penalties on a party which breaches financial sanctions.

**Australia**

The Australian restrictions and prohibitions arising from the sanctions laws apply broadly to any person in Australia, any Australian anywhere in the world, companies incorporated overseas that are owned or controlled by Australians or persons in Australia, and/or any person using an Australian flag vessel or aircraft to transport goods or transact services subject to United Nations sanctions.