
REGULATIONS

This section sets out a summary of the most significant aspects of laws and regulations in the PRC and Hong Kong that are material to our business operations.

PRC

Regulations Relating to Foreign Investment

The establishment, operation and management of our PRC companies are governed by the PRC Company Law (《中華人民共和國公司法》), as most recently amended in 2018, which applies to all PRC companies including foreign-invested companies, except where foreign-investment related laws provide otherwise.

On March 15, 2019, the National People’s Congress approved the Foreign Investment Law (《中華人民共和國外商投資法》), which sets out the regulatory framework for foreign investments and pursuant to which (i) foreign natural persons, enterprises or other organizations (collectively, the “foreign investors”) shall not invest in any sector prohibited as specified in the negative list for access of foreign investment, (ii) for any sector restricted by the negative list, foreign investors shall conform to the investment conditions provided in the negative list, and (iii) sectors not included in the negative list shall be managed under the principle of treating domestic investments and foreign investments equally. It, together with its implementation rules, also sets forth necessary mechanisms to facilitate, protect and manage foreign investments and proposes to establish a foreign investment information report system where foreign investors or foreign-funded enterprises shall submit investment information to the competent departments of commerce through the enterprise registration system and the enterprise credit information publicity system.

The Measures for Foreign Investment Information Reporting (《外商投資信息報告辦法》), which was promulgated on December 30, 2019 and came into effect on January 1, 2020, sets out the details of the foreign investment information report system. Beginning January 1, 2020, with respect to foreign investors carrying out investment activities directly or indirectly in the PRC, foreign investors or foreign-funded enterprises shall submit investment information to the commerce authorities in accordance with these measures.

According to the Special Administrative Measures for Access of Foreign Investment (Negative List) (2021 Edition) (《外商投資准入特別管理措施(負面清單)(2021年版)》) promulgated on December 27, 2021, our business does not fall under such categories where foreign investment is restricted or prohibited.

Regulations Relating to Our Industry and Products

Regulations Relating to Commercial Franchising

Pursuant to the Regulations on the Administration of Commercial Franchising (《商業特許經營管理條例》), or the Franchising Regulations, which took effect on May 1, 2007, commercial franchising refers to business activities where a franchisor, being an enterprise

REGULATIONS

possessing registered trademarks, corporate logos, patents, proprietary technology, or other business resources, licenses through contracts its business resources to the franchisees, being other business operators, and the franchisees carry out business operations under a uniform business model and pay franchising fees to the franchisor pursuant to the contracts. The Franchising Regulations sets forth the prerequisite requirements for the franchisors, including the possession of a mature business model, the capability to provide business guidance, technical support, and business training to the franchisees, and the ownership of at least two direct stores which shall have been in operation for at least one year in China. It also sets forth the requirements governing the franchise agreements. For example, the franchisors and franchisees are required to enter into franchising agreements containing certain required terms, and the franchise term thereunder shall be no less than three years unless otherwise agreed by the franchisee.

Pursuant to the Administrative Measures on the Filing of the Commercial Franchise (《商業特許經營備案管理辦法》), which took effect on February 1, 2012, and the Franchising Regulations, within 15 days after executing the first franchise agreement, the franchisor shall file with the MOFCOM or its local counterparts for record, and if there occurs any change to the franchisor's business registration, business resources, and the franchisee store network throughout China, the franchisor shall apply to MOFCOM for alteration within 30 days after the occurrence of such change. Furthermore, within the first quarter of each year, the franchisor shall report the execution, revocation, termination, and renewal of the franchise agreements occurring in the previous year to MOFCOM or its local counterparts.

Furthermore, the franchisor is required to implement information disclosure system. The Administrative Measures on the Information Disclosure of Commercial Franchising (《商業特許經營信息披露管理辦法》), which took effect on April 1, 2012, provides a list of information that the franchisor shall disclose to franchisees in writing at least 30 days prior to the conclusion of the franchising agreements, except such agreements are renewed under the original terms.

Regulations Relating to Product Quality and Consumers Protection

According to the Product Quality Law of the PRC (《中華人民共和國產品質量法》), which took effect on September 1, 1993 and was last amended on December 29, 2018, products for sale must satisfy relevant safety standards and sellers shall adopt measures to maintain the quality of products for sale. Sellers shall not mix impurities or imitations into products, or pass counterfeit goods off as genuine ones, or defective products as good ones or substandard products as standard ones. For sellers, any violation of state or industrial standards for health and safety or other requirements may result in civil liabilities and administrative penalties, such as compensation for damages, fines, confiscation of products illegally manufactured or sold and the proceeds from the sales of such products illegally manufactured or sold, and even revoking business licenses; in addition, severe violations may subject the responsible individual or enterprise to criminal liabilities. Consumers or victims who suffer injuries or

REGULATIONS

property losses due to product defects may demand compensation from either the producer or the seller. Where the liability lies with the producer, the seller shall, after settling the claim, have the right to recover such claim from the producer, and vice versa.

According to the Consumers Rights and Interests Protection Law of the PRC (《中華人民共和國消費者權益保護法》), or the Consumers Rights and Interests Protection Law, which took effect on January 1, 1994 and was last amended on October 25, 2013, business operators should guarantee that the products and services they provide satisfy the requirements for personal or property safety, and provide consumers with authentic information about the quality, function, usage and term of validity of the products or services. Where business operators have discovered any defect in the goods or services they provided, which may endanger personal or property safety, they shall forthwith report to relevant administrative authorities and notify consumers, and adopt measures such as suspension of selling, alerts, recalls, decontamination, destruction, and suspension of manufacturing or services. In the case where recall measures are adopted, the business operator shall bear necessary expenses incurred by consumers resulting from the recall of goods. Violations of the Consumers Rights and Interests Protection Law may result in a warning, the confiscation of illegal income, and the imposition of fines. In addition, the relevant business operator will be ordered to suspend its operations, have its business license revoked and criminal liability incurred in serious cases.

Regulations Relating to Food Sales

According to the Food Safety Law of the PRC (《中華人民共和國食品安全法》), which was effective on June 1, 2009 and last amended on April 29, 2021, the PRC government implements a licensing system for food manufacturing and food business operations. Whoever engages in food production or sale or catering services shall obtain a permit in accordance with the law. However, a permit is not required for the sale of edible agricultural products and prepacked food. The sale of prepacked food shall be reported to the local food safety regulatory department.

Regulations Relating to Cosmetics Sales

The Cosmetics Supervision and Administration Regulation (《化妝品監督管理條例》) promulgated by the State Council, as effective on January 1, 2021, requires that cosmetics operators shall establish and implement the inspection and recording system for the purchased goods to verify the market entity registration certificates, cosmetics registration or record-filing status and the ex-factory inspection conformity certificates of the suppliers, as well as truthfully record and keep the relevant vouchers.

Regulations Relating to Medical Devices Sales

Pursuant to the Regulation on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》), as effective on April 1, 2000 and last amended on February 9, 2021, and the Measures for the Supervision and Administration of the Operation of Medical Devices (《醫療器械經營監督管理辦法》), as effective on October 1, 2014 and last amended

REGULATIONS

on March 10, 2022, medical devices are administered by categorization according to their risk levels, no license or filing is required for the sale of Class I medical devices, filing is required for the sale of Class II medical devices, and a license is required for the sale of Class III medical devices. A purchase inspection recording system for the medical devices is required for purchased medical devices operators, and a recording system for sale is required for wholesalers of Class II and Class III medical devices and retailers of Class III medical devices also.

Regulations Relating to Sales of Our Products

According to the Anti-unfair Competition Law (《反不正當競爭法》) promulgated on September 2, 1993 and last amended on April 23, 2019, when trading in the market, business operators should abide by the principles of voluntariness, equality, fairness, honesty and credibility, and abide by laws and recognized business ethics. Unfair competition refers to a business operator, in violation of the Anti-unfair Competition Law, disrupts the competition order and infringes the legitimate rights and interests of other business operators or consumers. A business operator in violation of the Anti-unfair Competition Law may be subject to civil liability and administrative penalties. A business operator whose legitimate rights and interests are damaged by any act of unfair competition may file a lawsuit.

According to the Advertising Law of the PRC (《中華人民共和國廣告法》), which was promulgated on October 27, 1994 and last amended on April 29, 2021, advertisement shall be expressed in a true, legitimate, healthy manner, and shall not contain false or misleading content, or defraud or mislead consumers. The Advertising Law of the PRC forbids the usage of certain words or phrases in advertisements, such as “national,” “supreme,” or “best” and provides a more detailed definition of “false advertisement”. Advertisers, advertising agents and advertisement publishers shall abide by the laws, regulations and the principles of justice, honesty and fair competition when carrying out advertising activities.

According to the E-Commerce Law (《電子商務法》) promulgated on August 31, 2018, e-commerce operators include operators of e-commerce platforms, business operators on e-commerce platforms, and other e-commerce operators that sell commodities or offer services on websites they develop themselves or through other network services. Unless otherwise provided, e-commerce operators shall complete the market entity registration. Commodities sold or services offered by e-commerce operators shall meet the requirements to safeguard personal safety and property security and the requirements on environmental protection, and they shall not supply or offer any commodity or service prohibited by laws and administrative regulations. An e-commerce operator shall also: (i) continuously display and update its business license information and administrative license or relevant information which indicates that it does not need to complete the market entity registration in a prominent position on its homepage or provide the link to the aforesaid information, (ii) disclose information about commodities or services in a comprehensive, truthful, accurate and timely manner so as to safeguard the consumers’ right to know and right of choice, and (iii) deliver commodities or

REGULATIONS

services according to its promises or the ways and time limits as agreed upon with consumers, and bear the likely risks and responsibilities when commodities are in transit except when consumers choose a separate logistics service provider.

Regulations Relating to Product Sales Through Live Streaming Platforms

According to the Measures for the Administration of Live Streaming Marketing (for trial implementation) (《網絡直播營銷管理辦法(試行)》) promulgated on April 16, 2021 and Opinions on Further Regulating For-profit Activities of Live Streaming to Promote the Healthy Development of the Industry (《關於進一步規範網絡直播營利行為促進行業健康發展的意見》) promulgated on March 25, 2022, the live streaming marketing platform and live streaming service agency shall perform the tax withholding obligation in accordance with the law. The Notice of the General Office of the National Radio and Television Administration on Further Strengthening the Management of Cultural and Artistic Programs and Their Personnel (《國家廣播電視總局辦公廳關於進一步加強文藝節目及其人員管理的通知》), which was issued on September 2, 2021, calls for the resolute rejection of illegal and unethical personnel and vulgar influencers. As advised by our PRC Legal Adviser, it applies to the radio and television broadcasters and network audio-visual platforms. Therefore, we do not think the regulations will have any material adverse impact on our business.

Regulations Relating to Fire Prevention

According to the Fire Prevention Law of the PRC (《中華人民共和國消防法》), which was promulgated on April 29, 1998 and last amended on April 29, 2021, the constructor or user entity shall be subject to fire protection inspection before a public gathering place is put into use or opens for business. Any construction illegally putting into use or operating a public gathering place without being permitted by the fire and rescue department or without conforming to the use and operation conditions as the constructor or user undertakes upon inspection, may be ordered to stop construction, stop use, stop production or business operation, and be imposed a fine ranging from RMB30,000 to RMB300,000.

Regulations Relating to Data, Cyber and Information Security

On May 28, 2020, the National People's Congress issued the PRC Civil Code (《中華人民共和國民法典》), which took effect on January 1, 2021. In accordance with the PRC Civil Code, natural person's personal information shall be protected by law, and the processing of personal information shall be subject to the principle of legitimacy, rightfulness and necessity, with no excessive processing.

On November 7, 2016, the Standing Committee of the National People's Congress promulgated the Cyber Security Law (《網絡安全法》), which became effective on June 1, 2017. In accordance with the Cyber Security Law, network operators must comply with applicable laws and regulations and fulfill their obligations to safeguard cyber security in conducting business and providing services. For the construction and operation of the network or the provision of services through the network, technical and other necessary measures shall

REGULATIONS

be taken as required by law and the compulsory requirements of national standards to ensure the safe and stable operation of the network, respond to cyber security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data. Network operators shall not collect personal information irrelevant to their services. In the event of any unauthorized disclosure, damage or loss of collected personal information, network operators shall take immediate remedial measures, notify the affected users and report the incidents to the relevant authorities in a timely manner.

The PRC Data Security Law (《中華人民共和國數據安全法》) was released by the National People's Congress Standing Committee on June 10, 2021 and became effective on September 1, 2021. The PRC Data Security Law stipulates the measures to support and promote data security and development, to establish and optimize the national data security management system, and to clarify organizations' and individuals' responsibilities in data security. According to the PRC Data Security Law, data processing activities shall be carried out in accordance with PRC laws and regulations, establishing and improving the data security management system of the whole process, organizing and carrying out data security education and training, and taking corresponding technical measures and other necessary measures to safeguard data security. Where data processing activities are carried out through the Internet and other information networks, the above-mentioned data security protection obligations shall be fulfilled on the basis of the hierarchical network security protection system. In carrying out data processing activities, risk monitoring shall be strengthened, and remedial measures shall be taken immediately when data security defects, loopholes and other risks are found. In the event of a data security incident, the processors of data shall take immediate measures to deal with it, inform the user in time and report to the competent authorities in accordance with relevant provisions. Any organization or individual carrying out data processing activities that violates the PRC Data Security Law shall bear the corresponding civil, administrative or criminal liability depending on the specific circumstances.

The Personal Information Protection Law (《個人信息保護法》, the "PIPL") was released by the National People's Congress Standing Committee on August 20, 2021 and became effective on November 1, 2021. The PIPL stipulates the scope of personal information and the ways of processing personal information, establishes rules for processing personal information and for providing personal information to overseas recipients, and clarifies the individual's rights and the processor's obligations in the process of personal information processing. The PIPL applies to (i) the processing within the territory of the PRC of natural persons' personal information; or (ii) the processing outside the territory of the PRC over personal information of natural persons within the PRC, provided that such information is processed (a) for the purpose of providing products or services to domestic natural persons, (b) to analyze or assess the conduct of domestic natural persons, or (c) under any other circumstances as prescribed by laws and administrative regulations. The PIPL requires, among others, that (i) the processing of personal information should have a clear and reasonable purpose which should be directly related to the processing purpose, in a method that has the least impact on personal rights and interests, and (ii) the collection of personal information

REGULATIONS

should be limited to the minimum scope necessary to achieve the processing purpose to avoid the excessive collection of personal information. Different types of personal information and personal information processing will be subject to various rules on consent, transmission, and security.

On December 28, 2021, the CAC, together with other relevant departments, jointly promulgated the Cybersecurity Review Measures (《網絡安全審查辦法》), which became effective from February 15, 2022. According to the Cybersecurity Review Measures, a network platform operator who possesses personal information of more than one million users shall apply for cybersecurity review before the listing of the network platform operator's securities abroad, and the relevant governmental authorities may initiate cybersecurity review if such governmental authorities consider relevant network products or services and data processing affect or may affect national security. We do not think listing in Hong Kong is listing abroad.

On November 14, 2021, the CAC released the Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (“**Draft Regulations**”), which stipulates that a data processor who processes personal information of more than one million users seeking to list abroad or a data processor seeking to list in Hong Kong which affects or may affect national security is required to apply for cybersecurity review under relevant rules and regulations. However, the Draft Regulations do not provide the standard to determine the circumstances that would be determined to “affect or may affect national security.” As of the Latest Practicable Date, it had not been formally adopted and is subject to further guidance.

Regulations Relating to Intellectual Property

Patent

Patents in the PRC are principally protected under the PRC Patent Law (《中華人民共和國專利法》), which was promulgated in 1984 and was last amended in 2020. The duration of a patent right for inventions, utility models and designs shall be 20 years, 10 years and 15 years, respectively, all commencing from the application date.

Copyright

The Copyright Law of the PRC (《中華人民共和國著作權法》), promulgated on September 7, 1990 and last amended on November 11, 2020, specifies that works of Chinese citizens, legal persons or other organizations, namely ingenious intellectual achievements in the fields of literature, art and science that can be presented in a certain form, whether published or not, shall enjoy the copyright. The copyright holder can enjoy multiple rights, including the right of publication, the right of authorship, and the right of reproduction.

REGULATIONS

Trademark

According to the Trademark Law of the PRC (《中華人民共和國商標法》), which was promulgated on August 23, 1982 and last amended on April 23, 2019, registered trademarks are trademarks approved and registered by the trademark bureau, including commodity trademarks, service trademarks, collective trademarks, and certification marks. A trademark registrant enjoys exclusive rights to use a registered trademark, which is protected by the law. A trademark registration applicant shall, according to the prescribed classification of goods, enter the class and designation of goods on which the trademark is to be used, and file an application for registration.

Domain Name

According to the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》), promulgated on August 24, 2017, the principle of “first to file” is adopted for domain name services. The applicant for domain name registration shall provide the agency of domain name registration with true, accurate and complete information about the domain name holder’s identity for registration purpose. Upon the completion of the registration process, the applicant will become the holder of the relevant domain name.

Regulations Relating to Employment, Social Insurance and Housing Fund

Pursuant to the PRC Labor Law (《中華人民共和國勞動法》), which was promulgated in 1994 and last amended in 2018 and the PRC Labor Contract Law (《中華人民共和國勞動合同法》), which was promulgated in 2007 and amended in 2012, employers must execute written labor contracts with full-time employees. All employers must comply with local minimum wage standards. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in the imposition of fines and other administrative and criminal liability in the case of serious violations.

According to Social Security Law of the PRC (《中華人民共和國社會保險法》), which was promulgated on October 28, 2010 and amended on December 29, 2018, an employer is required to make contributions to social insurance schemes for its employees, including basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance and work-related injury insurance. If the employer fails to make social insurance contributions in full and on time, the social insurance authorities may demand the employer make payments or supplementary payments for the unpaid social insurance premium within a prescribed time limit together with a 0.05% surcharge of the unpaid social insurance premium from the due date. If the payment is not made within such time limit, the relevant administrative authorities will impose a fine ranging from one to three times the total outstanding amount.

According to the Reform Plan of the State Tax and Local Tax Collection Administration System (《國稅地稅徵管體制改革方案》), which was promulgated on July 20, 2018, commencing from January 1, 2019, all the social insurance premiums, including the premiums of basic pension insurance, unemployment insurance, maternity insurance, work injury

REGULATIONS

insurance and basic medical insurance, shall be collected by the tax authorities. According to the Notice on Conducting the Relevant Work Concerning the Administration of Collection of Social Insurance Premiums in a Steady, Orderly and Effective Manner (《關於穩妥有序做好社會保險費徵管有關工作的通知》) promulgated by the General Office of the State Administration of Taxation on September 13, 2018 and the Urgent Notice on Implementing the Spirit of the Executive Meeting of the State Council in Stabilizing the Collection of Social Security Contributions (《關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) promulgated by the General Office of the Ministry of Human Resources and Social Security on September 21, 2018, all the local authorities responsible for the collection of social insurance are strictly forbidden from conducting self-collection of historical unpaid social insurance contributions from enterprises. The Notice on Implementing Measures to Further Support and Serve the Development of Private Economy (《關於實施進一步支持和服務民營經濟發展若干措施的通知》), promulgated by the State Taxation Administration on November 16, 2018, repeats that tax authorities at all levels may not organize self-collection of arrears of taxpayers including private enterprises from the previous years. The Notice of General Office of the State Council on Promulgation of the Comprehensive Plan for the Reduction of Social Insurance Premium Rate (《國務院辦公廳關於印發降低社會保險費率綜合方案的通知》), promulgated on April 1, 2019, requires steady advancement of the reform of the system of social security fees collection. In principle, the basic pension insurance for enterprise employees and other insurance types for enterprise employees shall be collected temporarily according to the existing collection system to stabilize the payment method. It also emphasizes that the historical unpaid arrears of the enterprise shall be properly treated. In the process of reformation of the collection system, the relevant governmental body is not allowed to conduct self-collection of historical unpaid arrears from enterprises, neither is it allowed to adopt any method of increasing the actual payment burden of small and micro enterprises to avoid causing difficulties in the production and operation of the enterprises.

According to the Administrative Regulations on Housing Provident Funds (《住房公積金管理條例》), which was promulgated on April 3, 1999 and last amended on March 24, 2019, employers are required to make contributions to housing provident funds for their employees. Where an employer fails to pay housing provident funds, the housing provident fund administration center may order it to make payment within a prescribed time limit. If the employer still fails to do so, the housing provident fund administration center may apply to the court for compulsory enforcement of the unpaid amount.

Regulations Relating to Tax

Enterprise Income Tax

Under the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), or the EIT Law, which became effective on January 1, 2008 and was last amended on December 29, 2018, and its implementation rules, enterprises are classified as resident enterprises and non-resident enterprises. Enterprises which are incorporated in the PRC or incorporated pursuant to foreign laws with their “de facto management bodies” located in the PRC are deemed a “resident enterprise” and subject to an enterprise income tax rate of 25% on their

REGULATIONS

global income. Non-resident enterprises are subject to (i) an enterprise income tax rate of 25% on their income generated by their establishments or places of business in the PRC and their income derived outside the PRC which are effectively connected with their establishments or places of business in the PRC; and (ii) an enterprise income tax rate of 10% on their income derived from the PRC but not connected with their establishments or places of business located in the PRC. Non-resident enterprises without establishment or place of business in the PRC are subject to an enterprise income tax of 10% on their income derived from the PRC.

Value-added Tax (“VAT”)

According to the Interim Regulations on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》), which was promulgated on December 13, 1993 and last amended on November 19, 2017, together with its implementation rules, entities and individuals engaged in selling goods or labor services of processing, repair or maintenance, selling services, intangible assets or immovables within the PRC or importing goods to the PRC are subject to the payment of value-added tax. Pursuant to the Notice of the Ministry of Finance of the PRC and State Taxation Administration of the PRC on Adjusting Value-Added Tax Rates (《財政部、稅務總局關於調整增值稅稅率的通知》) effective on May 1, 2018, a taxpayer who was previously subject to a 17% tax rate on VAT-taxable sales activities shall have the applicable tax rate adjusted to 16%. According to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》), which came into effect on April 1, 2019, for VAT-taxable sales or imported goods of a VAT general taxpayer previously subject to VAT tax rate of 16%, the tax rate shall be adjusted to 13%.

Regulations Relating to Transfer Pricing

Pursuant to the EIT Law, its implementation rules, and the Implementation Regulations for Special Tax Adjustments (Trial) 《特別納稅調整實施辦法(試行)》 (the “STA Rules”) issued by the STA, transactions in respect of the purchase, sale and transfer of products between, amongst others, enterprises under direct or indirect control by the same third party are defined as related party transactions, which should comply with the arm’s length principle (獨立交易原則). If the related party transactions fail to comply with arm’s length principle which results in the reduction of the income or taxable income of the enterprise or its related party, the tax authority has the power to make an adjustment (特別納稅調整) following certain procedures within ten years from the tax paying year that the non-compliant related party transaction had occurred.

Pursuant to the Administration of Tax Collection of the PRC 《中華人民共和國稅收徵收管理法》 promulgated on September 4, 1992, last amended on April 24, 2015, and the Rules for the Implementation of the Law of the PRC on the Administration of Tax Collection 《中華人民共和國稅收徵收管理法實施細則》 promulgated on September 7, 2002, as amended, taxpayers have an obligation to provide the local tax authorities with information on prices, expenditure standard and others concerning business transactions with the related party. The taxpayer may propose to the competent tax authorities a pricing principle and calculation

REGULATIONS

method for business transactions with the related party. The competent tax authorities may, after examination and approval, agree upon the items of pricing with the taxpayer in advance and supervise over the implementation.

Pursuant to the Announcement of STA on Relevant Matters relating to Improvement of the Filing of Related Party Transactions and the Management of Contemporaneous Documentation 《國家稅務總局關於完善關聯申報和同期資料管理有關事項的公告》 which became effective on June 29, 2016, any resident enterprise subject to audit collection and any non-resident enterprise which has establishments or offices in the PRC and honestly reports and pays enterprise income tax shall, in filing a tax return for the annual enterprise income tax with a tax authority, make related filings with regard to its business transactions with any related party and attach thereto the annual report on the related party transactions.

STA has published an announcement on issuing the Administrative Measures for Special Tax Adjustment and Investigation and Mutual Consultation Procedures 《特別納稅調查調整及相互協商程序管理辦法》 which came into effect from May 1, 2017. According to this announcement, the tax authorities exercise special tax adjustment monitoring and management of enterprises through the review of the reporting of related party transactions, management of contemporaneous documentation, profit level monitoring and other means. If an enterprise receives a special tax adjustment risk warning from tax authorities or detects in itself any special tax adjustment risk, the enterprise may carry out voluntary adjustments regarding tax payment matters and the relevant tax authority may still proceed with special tax investigation adjustment procedures according to the relevant provisions. Further, pursuant to the tax treaties entered into by the PRC, STA may activate mutual consultation procedures either upon application by an enterprise or upon request by the competent tax authority of the contracting counterparty of a tax treaty to consult and negotiate with the latter, so as to avoid or eliminate international double taxation triggered by special tax adjustment.

Regulations Relating to Foreign Exchange

According to the PRC Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》) promulgated on January 29, 1996 and amended from time to time, the RMB is generally freely convertible for current account items, including the distribution of dividends, trade and service related foreign exchange transactions, but not for capital account items, such as direct investment, loan, repatriation of investment and investment in securities outside the PRC, unless the prior approval of the SAFE or its designated banks is obtained.

According to the SAFE Notice on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) promulgated on June 9, 2016, the settlement of foreign exchange receipts under the capital account (including but not limited to foreign currency capital and foreign debts) may convert from foreign currency into RMB on a self-discretionary basis. The ratio of the discretionary exchange rate of foreign exchange receipts under the domestic capital account is tentatively set at 100%. The SAFE may adjust the above ratio in due course according to the balance of payment status.

REGULATIONS

According to the SAFE Circular on Further Promoting Cross-border Trade and Investment Facilitation (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》) which was promulgated on October 23, 2019, foreign-invested enterprises engaged in non-investment business are permitted to settle foreign exchange capital in RMB and make domestic equity investments with such RMB funds according to the law on the condition that the current Special Administrative Measures for Access of Foreign Investment (Negative List) are not violated and the relevant domestic investment projects are genuine and in compliance with laws.

Pursuant to the SAFE Circular on Relevant Issues Concerning Foreign Exchange Administration of Overseas Investment and Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“SAFE Circular 37”), promulgated by SAFE and became effective on July 4, 2014, (a) a PRC resident (“PRC Resident”) shall register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (“Overseas SPV”), that is directly established or indirectly controlled by the PRC Resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change in respect of the Overseas SPV, including, among other things, a change of the PRC resident individual shareholder of the Overseas SPV, name of the Overseas SPV, term of operation, or any increase or reduction of the Overseas SPV’s share capital, share transfer or share swap by PRC Resident, or merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the SAFE Circular on Further Simplification and Improvement in Foreign Exchange Administration Policies on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (“SAFE Circular 13”), which became effective on June 1, 2015, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment is directly reviewed and handled by banks in accordance with SAFE Circular 13, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

Regulations Relating to Dividend Distribution

The principal regulations governing dividends distributions by companies is the PRC Company Law. PRC companies are required to set aside as general reserves at least 10% of their after-tax profit, until the cumulative amount of their reserves reaches 50% of their registered capital. PRC companies are not permitted to distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

REGULATIONS

Regulations Relating to Overseas Listing

On December 24, 2021, the CSRC published the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (together, “**Draft Regulations on Listing**”), which set out the new regulatory requirements and filing procedures for Chinese companies seeking direct or indirect listing in overseas markets. The Draft Regulations on Listing, among others, provide that (i) Chinese companies that seek to offer and list securities in overseas markets shall fulfill the filing procedures with and report relevant information to the CSRC, and that an initial filing shall be submitted within three working days after the application for an initial public offering is submitted, and a second filing shall be submitted after the listing is completed, and (ii) in the event that Chinese companies that have directly or indirectly listed securities in overseas markets intend to conduct follow-on offerings in overseas markets, such companies shall fulfill the filing procedures with and report relevant information to the CSRC, and such filing shall be submitted within three working days after such follow-on offering is completed. Moreover, an overseas offering and listing is prohibited if (i) it is prohibited by PRC laws, (ii) it may constitute a threat to or endanger national security as reviewed and determined by competent PRC authorities, (iii) it has material ownership disputes over equity, major assets, and core technology, (iv) in recent three years, the Chinese operating entities and their controlling shareholders and actual controllers have committed relevant prescribed criminal offenses or are currently under investigations for suspicion of criminal offenses or severe violations, (v) the directors, supervisors, or senior management have been subject to administrative punishment for severe violations, or are currently under investigations for suspicion of criminal offenses or severe violations, or (vi) it has other circumstances as prescribed by the State Council. Uncertainties exist regarding the final form of these regulations as well as the interpretation and implementation thereof after promulgation.

HONG KONG

There is no specific statutory requirement for our Group to obtain any licence to carry out our business in Hong Kong other than the requirement to have a business registration certificate under the Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong). Our Group does not import any food, dutiable commodities under the Dutiable Commodities Ordinance (Cap. 109) or any prohibited articles under the Import and Export Ordinance (Cap. 60) in or into Hong Kong. Below is a summary of the laws and regulations in Hong Kong which are material to our Group’s business.

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

For our Group’s operations in Hong Kong, we are required to apply for business registration and display a valid business registration certificate at the place of business under the Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong).

REGULATIONS

We held valid business registration certificates throughout the Track Record Period and as at the Latest Practicable Date.

Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong)

The Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) governs the formation, performance and remedies of contract for the sale of goods in Hong Kong and the transfer of title of goods sold. The ordinance also sets out certain implied terms or conditions and warranties generally relating to the safety and suitability of goods supplied under a contract of sale for goods in Hong Kong, including:

- (a) where there is a sale of goods by description, the goods shall correspond with the description;
- (b) where the seller sells goods in the course of a business, the goods shall be of a merchantable quality, i.e. (a) as fit for the purpose or purposes for which the goods of that kind are commonly bought; (b) of such standard of appearance and finish; (c) as free from defects (including minor defects); (d) as safe; and (e) as durable, as it is reasonable to expect having regard to any description applied to them, the price (if relevant) and all the other relevant circumstances; and
- (c) where the seller sells goods in the course of a business and the buyer makes known to the seller (whether expressly or by implication) any particular purpose for which the goods are being bought, the goods supplied under the contract shall be reasonably fit for that purpose.

Under section 55 of the Sale of Goods Ordinance, where there is a breach of warranty by the seller, the buyer is not, by reason only of such breach of warranty, entitled to reject the goods, but he may set up against the seller the breach of warranty in diminution or extinction of the price, or maintain an action against the seller for damages for the breach of warranty.

Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong)

The Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong) imposes a duty on manufacturers, importers and suppliers of consumer goods (i.e. goods which are ordinarily supplied for private use or consumption) to ensure that the consumer goods they supplied are safe.

Under section 6 of the Ordinance, a person shall not supply, manufacture or import into Hong Kong consumer goods, unless the consumer goods comply with the general safety requirement as provided under the ordinance or with the applicable safety standard(s) or safety specification(s) as approved by the Secretary for Commerce and Economic Development for the particular consumer goods. A person who contravenes section 6 commits an offence and is liable to (i) on first conviction, to a level 6 fine of HK\$100,000 and imprisonment for 1 year;

REGULATIONS

(ii) on subsequent convictions, to a fine of HK\$500,000 and to imprisonment for 2 years; and
(iii) where the offence is a continuing offence, in addition to the fine specified in (i) and (ii), the person shall be liable to a fine of HK\$1,000 for each day the offence continued.

Where the Commissioner of Customs and Excise reasonably believes that the consumer goods is non-compliant with the approved standard or a safety standard or safety specification established by regulation, the Commissioner is empowered under the Ordinance to (i) serve a prohibition notice prohibiting a person from supplying those consumer goods for a specified period not exceeding 6 months; and (ii) serve a recall notice requiring the immediate withdrawal of any consumer goods if there is a significant risk that the consumer goods will cause a serious injury and do not comply with the approved standard or a safety standard or safety specification established by regulation. Any person who is served with a notice and fails or refuses to comply with the notice commits an offence and is liable to a fine of up to HK\$500,000 and to imprisonment for 2 years and, where the offence is a continuing offence, a fine of HK\$1,000 for each day the offence continued.

Trade Description Ordinance (Chapter 362 of the Laws of Hong Kong)

The Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) aims to prohibit false trade description, false, misleading or incomplete information, false marks and misstatements in respect of goods and services provided in the course of trade. The definition of trade description under section 2 of the ordinance covers a broad range of matters including but not limited to: quantity, method of manufacture, composition, fitness for purpose, availability, compliance with a standard specified or recognised by any person, price, approval by any person, a person by whom they have been acquired, the goods being of same kind as goods supplied to a person, place or date of manufacture, etc.

Section 2 also provides that a trade description which is false to a material degree or which, though not false, is misleading, that is to say, likely to be taken for a trade description of a kind that would be false to a material degree, would be regarded as a false trade description.

Section 7 provides that it is an offence for any person who, in the course of any trade or business, applies a false trade description to any goods or supplies or offer to supply any goods to which a false description is applied. Section 7A provides that it is an offence for a trader who applies a false trade description to a service supplied or offered to be supplied to a consumer, or supplies or offers to supply to a consumer a service to which a false trade description is applied. Section 12 further prohibits any person from importing or exporting any goods to which a false trade description or forged trade mark is applied.

Sections 13E, 13F, 13G, 13H and 13I of the ordinance provide that a trader commits an offence if the trader engages, in relation to a consumer, in a commercial practice that is a misleading omission, or is aggressive, or constitutes bait advertising, or constitutes a bait and switch, or wrongly accepting payment for a product.

REGULATIONS

Any person who commits an offence under sections 7, 7A, 13E, 13F, 13G, 13H or 13I shall be liable, on conviction on indictment, to a fine of HK\$500,000 and to imprisonment for 5 years, and on summary conviction, to a level 6 fine of HK\$100,000 and imprisonment for 2 years.

Trade Marks Ordinance (Chapter 559 of the Laws of Hong Kong)

The Trade Marks Ordinance (Chapter 559 of the Laws of Hong Kong) makes provision in respect of the registration of trade marks and provides for connected matters.

The ordinance provides that a person infringes a registered trade mark if he uses in the course of trade or business a sign which is:-

- (a) identical to the registered trade mark in relation to goods or services which are identical to those for which it is registered;
- (b) identical to the registered trade mark in relation to goods or services which are similar to those for which it is registered and such use is likely to cause confusion on the part of the public;
- (c) similar to the registered trade mark in relation to goods or services which are identical to or similar to those for which it is registered and such use is likely to cause confusion on the part of the public; or
- (d) identical or similar to the registered trade mark in relation to goods or services which are not identical or similar to those for which the trademark is registered, and the trade mark is entitled to protection under the Paris Convention as a well-known trade mark, and such use, being without due cause, takes unfair advantage of or is detrimental to the distinctive character or repute of a trade mark.

The ordinance further provides that the owner of a trade mark may bring infringement proceedings against the infringer for damages, injunction, accounts or any other relief available in law.

Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong)

The Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong) stipulates that all cargo which is imported or exported shall be recorded in a manifest which shall contain such particulars as the Commissioner of Customs and Excise may prescribe.

Import and Export (Registration) Regulations (Chapter 60E of the Laws of Hong Kong) provides that every person who imports or exports any article other than an exempted article shall lodge an accurate and complete import or export declaration relating to such article using services provided by a specified body with the Commissioner of Customs and Excise within 14 days after the importation or exportation of the article. Our Group imports products in Hong Kong. Any person who fails or neglects to declare within 14 days after importation or exportation without reasonable excuse is liable to a fine of HK\$1,000 upon summary conviction and HK\$100 in respect of every day such declaration has not been lodged. Penalty of up to HK\$200 shall also be payable for late lodgement of a declaration.

REGULATIONS

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

The Competition Ordinance (Chapter 619 of the Laws of Hong Kong) is intended to, among others, prohibit conduct that prevents, restricts or distorts competition in Hong Kong, and prohibit mergers that substantially lessen competition in Hong Kong. There are three competition rules under the Competition Ordinance, namely, the First Conduct Rule, the Second Conduct Rule and the Merger Rule.

The First Conduct Rule prohibits anti-competitive agreements if the object or effect of the agreement, concerted practice or decision is to prevent, restrict or distort competition in Hong Kong. The Second Conduct Rule prohibits abuse of market power if the object or effect of the conduct is to prevent, restrict or distort competition in Hong Kong. The Merger Rule prohibits anti-competitive mergers and acquisitions, and currently only applies to mergers involving carrier licence holders within the meaning of the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong).

Penalties for infringement of the First Conduct Rule and the Second Conduct Rule that may be imposed by the Competition Tribunal includes pecuniary penalty that may amount to 10% of the turnover of the companies concerned for up to 3 years in which the contravention occurs (section 93), disqualification order against a director (section 101) and prohibition order (section 151A) etc. Further, pursuant to section 67 of the Competition Ordinance, if the Competition Commissioner has reasonable cause to believe that (i) a contravention of the First Conduct Rule has occurred and the contravention involves serious anti-competitive conduct; or (ii) a contravention of the Second Conduct Rule has occurred, the Commissioner may, instead of commencing proceedings, issue an infringement notice to the person against whom it proposes to bring proceedings, offering not to bring those proceedings on the condition that the person makes a commitment to comply with the requirements of the notice. Pursuant to section 68, such person is not obliged to make a commitment to comply with the requirements of the infringement notice, but if he does not make the commitment within the compliance period, the Competition Commissioner may bring proceedings against that person in the Competition Tribunal in relation to the alleged contravention of the conduct rule.

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

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), for a company carrying on a trade, profession or business in Hong Kong, its assessable profits arising in or derived from Hong Kong shall be chargeable to profits tax.

The Inland Revenue Ordinance also provides for the obligation to do the followings:

- (a) to keep sufficient records of the company's income and expenditure to enable the assessable profit to be readily ascertained for at least 7 years;
- (b) to inform the Inland Revenue Department of its chargeability to tax;
- (c) to submit tax return as required; and
- (d) to inform the Inland Revenue Department of the commencement and cessation of employment of its employees.