Our business operations are subject to extensive supervision and regulation by the PRC government. This section summarises the major laws, rules and regulations which are material to our business.

LAWS AND REGULATIONS ON ENTERPRISES WITH FOREIGN INVESTMENT

On 29 December 1993, the Standing Committee of the National People's Congress (the "**NPCSC**") promulgated the Company Law of the PRC* (中華人民共和國公司法) which became effective on 1 July 1994 and subsequently revised on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018 respectively; the provisions of this law also apply to the foreign invested companies with limited liabilities.

On 12 April 1984, the NPCSC promulgated the Law of the PRC on Foreign-Capital Enterprises* (中華人民共和國外資企業法) ("**Foreign Enterprise Law**") which was revised on 31 October 2000 and 3 September 2016 respectively; the State Council of the PRC (the "**State Council**") issued the Implementation Details of the Foreign Enterprise Law of the PRC* (中華人民共和國外資企業法實施細則) on 12 December 1990 which was subsequently revised on 12 April 2001 and 19 February 2014 respectively. MOFCOM issued the Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-Funded Enterprises* (外商投資企業設立及變更備案管理暫行辦法) on 8 October 2016 which was subsequently revised on 30 July 2017 to outline provisions on the establishment, organisation structure, operation, annual inspection, foreign exchange administration and labour issues of the foreign invested enterprises. The relevant enterprises are governed by the above laws and regulations.

The domestic subsidiaries of our Group are regulated by the above laws and regulations.

Dividend Distribution

In light of the Foreign Enterprise Law which was issued by the NPCSC on 12 April 1984 and revised on 31 October 2000 and 3 September 2016, the Regulation of the PRC on the Management of Foreign Exchanges* (中華人民共和國外匯管理條例) which was issued by the State Council on 29 January 1996 and revised on 14 January 1997 and 5 August 2008, the Provisions on Settlement, Sales and Payment In Foreign Exchange* (結匯、售匯及付匯管理規定) issued by the People's Bank of China on 20 June 1996, after the corporate income taxes have been paid in accordance with the provisions of the tax law of the PRC, as resolved by the shareholders and after withdrawing the necessary funds, the net profit can be legally remitted overseas.

In line with the Implementation Details of the Foreign Enterprise Law of the PRC issued by the State Council on 12 December 1990 and subsequently revised on 12 April 2001 and 19 February 2014 respectively, the reserve funds and employee rewarding and benefit funds shall be withdrawn from the profits of the foreign enterprises after deducting income taxes. The reserve fund to be withdrawn shall not be less than 10% of the after-tax profit and when the accumulative reserve fund reaches 50% of the registered capital, such withdrawal may be stopped. The ratio of employee bonuses and welfare are to be determined by the foreign enterprise. Profits may not be distributed before losses in previous fiscal years are accounted for; undistributed profits in previous fiscal years may be distributed together with the profits available for distribution in the current fiscal year.

According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Invasion with Respect to Taxes on Income* (內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排) (the "**Tax Treaty**") which was signed between the Mainland government and Hong Kong government on 21 August 2006, if a Hong Kong resident who beneficially owns 25% or more interest in a PRC enterprise, the applicable withholding tax rate for dividends paid by the PRC enterprise to the Hong Kong resident is 5%; if the PRC enterprise pays dividends to a Hong Kong resident holding less than 25% of their equity, the withholding tax rate is 10%.

Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses in Tax Agreements* (國家税務總局關於執行税收協定股息條款有關問題的通知) which was promulgated on and took effect from 20 February 2009 where dividend is being paid to a tax resident of the other party of the tax agreement, the following requirements should be met in order for said tax resident to be entitled to being taxed at a tax rate specified in the tax agreement: (i) such tax resident who obtains dividends should be a company as provided in the tax agreement; (ii) the owner's equity interests and voting shares of the Chinese resident company directly owned by such a tax resident reaches a percentage specified in the tax agreement; and (iii) the equity interests of the Chinese resident company directly owned by such a tax resident, at any time during the twelve months prior to the obtainment of the dividends, reaches a percentage specified in the tax agreement.

Dividend distribution of domestic subsidiaries of our Group is governed by the above laws and regulations.

LAWS AND REGULATIONS ON OUR BUSINESS

According to the Guidance Catalogue of Industries for Guiding Foreign Investment* (外商投資產業指導目錄(2017年修訂)) (the "**Catalogue**") which was amended and promulgated by the MOFCOM and the National Development and Reform Commission (the "**NDRC**") on 28 June 2017 and was effective on 28 July 2017, our Group's current business involves chemical raw materials and chemical manufacturing, and is one of the foreign investment industries encouraged by the Chinese government.

In accordance with provisions of the Administrative Regulations on the Administration of Production Licenses for Industrial Products of the PRC* (中華人民共和國工業產品生產許可証管理條例) , which was promulgated by the State Council on 9 July 2005 and came into effect on 1 September 2005 and the Implementing Measures for the Administrative Regulations on the Administration of Production License for Industrial Products of the PRC* (中華人民共和國工業產品生產許可証管理條例實施辦法) which were promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (the "**AQSIQ**") on 15 September 2005 and revised on 21 April 2010 , 21 April 2014 and came into effect on 1 August 2014, the PRC implements a production license system in respect of the manufacturing of important industrial products. No enterprise is permitted to produce the industrial products covered by the production license system without obtaining the industrial production permit.

No organisation or individual is allowed to sell or use the product for which no production permit is obtained in its business activity. According to these provisions, the motor vehicle brake fluid produced by our Group is required to obtain the production license of the Guangdong Provincial Bureau of Quality and Technical Supervision, and our Group has obtained such permit.

Based on these regulations, to obtain the industrial production permit, an enterprise shall meet the following conditions:

- have a business certificate;
- have professionals corresponding to the industrial products produced;
- have the production condition, inspection and quarantine means corresponding to the industrial products produced;
- have the technical documents and technological documents corresponding to the industrial products produced;
- have an effective quality management system and responsibility system;
- ensure that the industrial products comply with the relevant PRC, industrial standards and the requirements for personal health and personal and property safety; and
- comply with the PRC industrial policy and be free of backward technology, high energy consumption, environment pollution and resource wastage which have been expressly washed out and forbidden by the state.

According to the Product Safety Law of the PRC* (中華人民共和國安全生產法) issued by the NPCSC on 29 June 2002 and revised on 27 August 2009 and 31 August 2014 and became effective on 1 December 2014, and the Regulation on Work Safety Licenses* (安全生產許可證條例) issued by the State Council on 13 January 2004 and revised on 29 July 2014, the government implements a production safety permit system for mining enterprises, construction companies, and hazardous chemicals, fireworks and civilian-use explosives production enterprises. If the above enterprises fail to obtain a production safety license, they must not engage in the relevant production activities. Before the above enterprises carry out any production, they shall apply to the production safety license issuance and management authority to obtain a production safety license. Our Group falls under the type of enterprises mentioned above.

According to this law, if an enterprise would like to obtain a production safety license, it shall meet the following conditions:

- establish and improve the safety production responsibility system, and formulate complete production safety regulations and operating procedures;
- ensure that safety inputs meet production safety requirements;

- set up production safety management agencies and staff with full-time safety production management personnel;
- ensure that the principle responsible person and production safety management personnel have passed the relevant assessments;
- ensure that the special operators are qualified by relevant competent department heads to obtain qualification certificates for special operations;
- ensure that employees have passed the production safety education and training;
- participate in work-related injury insurance according to law and pay premiums for employees;
- ensure that plants, workplaces and safety facilities, equipment and processes meet the requirements of the relevant production safety laws, regulations, standards and procedures;
- provide occupational hazards prevention and control measures, and provide employees with labour protection articles that meet national standards or industry standards;
- conduct safety assessment according to the relevant laws, regulations, standard and procedures;
- formulate major hazard detection, assessment, monitoring measures and emergency plans;
- formulate emergency rescue plans for production safety accidents, emergency rescue organisations or emergency rescue personnel, equipped with necessary emergency rescue equipment; and
- satisfy other conditions stipulated by the relevant laws and regulations.

According to the Regulations on the Safety Administration of Hazardous Chemicals* (危險化學品安全管理條例) which were promulgated by the State Council on 26 January 2002 and became effective on 15 March 2002，and revised on 16 February 2011 and 7 December 2013, and the Measures for the Administration of Registration of Hazardous Chemicals* (危險化學品登記管理辦法) which was promulgated by the State Administration of Work Safety Supervision on 1 July 2012 and became effective on 1 August 2012, the hazardous chemical production enterprises and importing enterprises which import hazardous chemicals listed in the Chemical Hazardous Chemicals Catalogue* (危險化學品目錄) shall go through registration according to the provisions of the Regulations on the Safety Administration of Hazardous Chemicals. If registered enterprises fail to handle the registration of dangerous chemicals or change their registered varieties, or go through the formalities of changing the registration content of a dangerous chemical if a dangerous chemical has a new hazardous characteristic, it shall be ordered to make a correction and a fine of up to RMB 50,000 may be imposed; if the relevant enterprises refuse to make a correction, a fine between RMB 50,000 and RMB 100,000 shall be imposed; in serious cases, it would be ordered to suspend production for rectification.

Pursuant to the Circular on Matters Related to Cosmetics Production Permit* (關於化妝品生產許可有關事項的公告) promulgated by the China Food and Drug Administration on 15 December 2015 and effective on the same day, in order to engage in production of cosmetic products, one shall obtain a "cosmetics production permit"*（化妝品生產許可證）("**Cosmetics Production Permit**") approved by the food and drug administrative authorities. The validity period of the Cosmetics Production Permit is 5 years. The validity period of the permit of the cosmetics production enterprises which have already obtained the National Industrial Product Manufacturing Permit* (全國工業產品生產許可證) issued by the AQSIQ and the Cosmetics Production Enterprise Hygiene Permit* (化妝品生產企業衛生許可證) issued by the provincial food and drug administration shall be automatically extended to 31 December 2016. Our Group is also engaged in the manufacturing and sales of personal care products including cosmetics products.

According to the Disinfection Product Manufacturing Enterprise Health License Regulations* (消毒產品生產企業衛生許可規定) issued on 16 November 2009 by the Ministry of Health of the PRC and became effective on 1 January 2010, the companies and individuals for disinfectant manufacturing in the production and distribution of disinfectant products in China must apply for the "license for disinfectant manufacturing"*（消毒產品生產企業衛生許可證）in accordance with the requirements of these regulations. Some of our products are disinfectant products such as hand wash products.

The NPCSC promulgated on 22 February 1993 and revised on 8 July 2000, 27 August 2009 and 29 December 2018 the Law on Product Quality of the PRC* (中華人民共和國產品質量法), providing that all the production and sale activities conducted within the PRC shall follow this law.

In light of the above law, if injury to other persons or damage their assets is caused as a result of the product's defect, the sufferer may demand compensation against producer or the seller of such product. If the liability lies with the seller and the producer made the relevant compensation, then the producer shall have a right to demand compensation from the seller.

If a product not complying with state standards or industrial standards ensuring the health or safety of people and assets is produced and sold, such production and sale would be ordered to stop; such product would be forfeited and a fine would be imposed; the illegal revenue would be forfeited until the relevant business permit is withdrawn; if the activity constitutes a crime, then criminal liability would be imposed.

According to the Law on Product Quality of the PRC, sellers shall have the following responsibilities:

- implement the inspection and acceptance system for any goods received, verify the product certificates and other markings;
- adopt measures to maintain the quality of the products sold;
- forbid the selling of the products expressly washed out and prohibited by the PRC as well as invalid or degenerative products;

- ensure that the markings of the products sold shall comply with the relevant provisions of the PRC or the province;

- forbid the fabrication of the origin of production or fabricate or fraudulently use the industrial plant names or locations of others; and

- refrain from mixing inferior goods with better goods or counterfeit products which conform with relevant laws during the sales process.

in line with this law, producers shall have the following responsibilities:

- be responsible for the quality of the products they produce;

- shall not produce products expressly washed out by the PRC;

- forbid the fabrication of the origin of production or fabricate or fraudulently use the industrial plant names or locations of others;

- refrain from mixing inferior goods with better goods or counterfeit products which conform with relevant laws during the production process;

- ensure the genuineness of the markings on the products and the packing; and

- ensure that the packaging of dangerous goods that are fragile, explosive, flammable, toxic, corrosive, radioactive, products that should be kept upright during storage and transportation and other products with special requirements must meet relevant requirements and warning markings should be provided in line with the relevant provisions of the PRC; and that notes for storage and transportation shall be marked clearly.

The Anti-Unfair Competition Law of the PRC* (中華人民共和國反不正當競爭法) was promulgated on 2 September 1993 and became effective on 1 December 1993 and was revised on 4 November 2017. Violating this law would incur a fine; if the case is serious, the business certificate may be withdrawn and criminal liability may be imposed. According to this law, business operators are not allowed to carry on market transactions and damage the competitors with the following unfair competition means:

- infringe the registered trademarks or commercial secretes of others;

- make false promotion by way of advertisement or other means, or fabricate or spread false facts to damage the credit of competitors or their goods; and

- other unfair means including commercial bribery, forming cartels, price fixing and offering gifts or reward as kickbacks for sales.

The NPCSC promulgated the Law on Protection of the Rights and Interests of Consumers* (中華人民共和國消費者權益保護法) on 31 October 1993, which became effective on 1 January 1994 and was revised respectively on 27 August 2009 and 25 October 2013. According to this law, the consumers enjoy the rights of not having their personal safety and property harmed during the process of purchasing, using and accepting services; the consumers have the right to demand that business operators ensure the safety of their property and personal safety.

The business carried out by the domestic subsidiaries of our Group involves the licenses listed in the above laws and regulations, and the relevant businesses shall be regulated by the above laws and regulations.

LAWS AND REGULATIONS ON TAXATION

According to the Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得税法) (the "**EIT Law**") promulgated by the NPC on 16 March 2007 and revised on 24 February 2017 and 29 December 2018, and the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得税法實施條例) (the "**EIT Implementation Rules**"), which came into effect on 1 January 2008, enterprises are classified as resident enterprises and non-resident enterprises. Resident enterprises refer to enterprises established in China under Chinese law or established in accordance with the laws of foreign countries (regions) but actually having their management in China. Non-resident enterprises refer to those enterprises established in accordance with the laws of foreign countries (regions) and that their actual management is not located in China but have establishments or offices in the territory of China, or those who have no establishments or offices in the territory of China but has incomes sourced in China. PRC resident enterprises pay enterprise income tax at the rate of 25% while a non-resident enterprise without a permanent establishment in the territory of China, or no actual connection between the acquired income and its establishments or offices in China, shall calculate its enterprise income tax on the basis of 10% of the income derived from the PRC.

According to the EIT Law, the EIT tax rate of a high-tech enterprises is 15%. Pursuant to the Measures for the Administration of the Recognition of High-tech Enterprises* (高新技術企業認定管理辦法), effected on 1 January 2008 and amended on 29 January 2016, the certificate of a high-tech enterprise is valid for three years. An enterprise shall, after being accredited as a high-tech enterprise, fill out and submit the annual status report on the "High-tech Enterprise Accreditation Network" concerning intellectual property rights, scientific research personnel, research and development expenses and operating income of the previous year. Guangzhou Botny was entitled to such preferential tax rate of 15% during the Track Record Period.

The Provisional Regulations of the PRC on Value-added Tax* (中華人民共和國增值税暫行條例) was promulgated by the State Council on 13 December 1993 and came into effect on 1 January 1994 which were subsequently amended on 10 November 2008, 6 February 2016, and 19 November 2017 respectively. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (Revised in 2011)* (中華人民共和國增值税暫行條例實施細則(2011年修訂)) were promulgated by the Ministry of Finance and State Administration of Taxation on 25 December 1993 and subsequently amended on 15 December 2008, 28 October 2011 and came into effect on 1 November 2011 (collectively, the "**VAT Law**"). The VAT Law applies to domestic and overseas

enterprises engaged in the business of sales of goods, provision of processing and maintenance services and import of goods within China. Except for sales service, VAT for intangible assets is 6%, and VAT for sales or import of goods of special category is 11%, 17% of VAT is applicable to the business of sales of goods, provision of processing and maintenance services and import of goods.

In the light of the Provisional Rules of the PRC on Stamp Duty promulgated by the State Council* (中華人民共和國印花稅暫行條例) on 6 August 1988 and became effective on 1 October 1988, and the Implementation Details for the Provisional Rules of the PRC on Stamp Duty issued by the Ministry for Finance and the General Taxation Administration of the State* (中華人民共和國印花稅暫行條例實施細則) on 29 September 1988, the organisations and individuals creating and obtaining the following taxable documents within the PRC are subject to stamp duty according to the relevant regulations:

- contracts or credentials relating to procurement and sales, processing, construction, assets rent, cargo transportation, warehousing, loan, assets insurance and technology;
- property rights transfer documents;
- business account books;
- rights and permit certificates; and
- other taxable credentials as decided by the Ministry for Finance.

The domestic subsidiaries of our Group shall pay taxes in accordance with the tax and tax rates specified in the above laws and regulations and shall be regulated by the above laws and regulations.

Urban maintenance and construction tax and education surcharge

In line with the Notice of the State Council on Extending the Urban Maintenance and Construction Tax and Education Surcharges from Chinese to Foreign-funded Enterprises and Citizens* (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知) issued on 18 October 2010 and became effective on 1 December 2010. Since 1 December 2010, the Provisional Regulations on the City Maintenance and Construction Tax of the PRC* (中華人民共和國城市維護建設稅暫行條例) and the Interim Provisions on the collection of Education Surcharges of the PRC* (中華人民共和國徵收教育費附加的暫行規定) shall apply to foreign invested enterprises, foreign enterprises and individual expatriates. According to the Provisional Regulations on City Maintenance and Construction Tax of the PRC* (中華人民共和國城市維護建設稅暫行條例) issued on 8 February 1985 and revised on 8 January 2011 as well as the Notice on Collecting City Maintenance and Construction Tax of the State General Taxation Administration* (國家稅務總局關於城市維護建設稅徵收問題的通知) which was issued on 12 March 1994 and became effective on 12 March 1994, all the organisations and individuals that pay product tax, VAT and business tax are subject to urban maintenance and construction tax.

The city maintenance and construction tax shall be based on the excise duty, VAT and business tax actually paid by the tax payers and paid along with the excise duties, VAT and business tax. Further, the tax rates for tax payers in urban areas, township or other places shall be 7%, 5% and 1%

respectively. In line with the Interim Provisions Regulations on the Collection of Educational Surcharges* (徵收教育費附加的暫行規定) which was promulgated on 28 April 1986 and became effective on 1 July 1986 and revised on 8 January 2011, all the organisations and individuals that pay excise duty, VAT and business tax are subject to education surcharge. The education surcharge shall be based on the excise duties, VAT and business tax actually paid by the tax payers and paid along with the excise duties, VAT and business tax at a rate of 3%.

The domestic subsidiaries of our Group are required to pay the city maintenance and construction tax and education surcharges at the rates determined by the above-mentioned laws and regulations, and are subject to the above laws and regulations.

LAWS AND REGULATIONS ON INTELLECTUAL PROPERTY RIGHTS

The NPCSC promulgated the Patent Law of the PRC* (中華人民共和國專利法) on 12 March 1984, which was subsequently revised on 4 September 1992, 25 August 2000 and 27 December 2008, the State Council issued the Implementation Details of the Patent Law of the PRC* (中華人民共和國專利法實施細則) on 19 January 1985, which was revised on 21 December 1992, 15 June 2001, 28 December 2002 and 9 January 2010, the above are aimed at protecting the legitimate rights and interests of the patent owners, encouraging invention and creation and improving the innovation capability. Based on this law, any use of the patent without the permit of the patent owner constitutes an infringement of the patent and the violator would be ordered to stop such infringement immediately and bear the loss caused to the patent owner.

The NPCSC promulgated the Trademark Law of the PRC* (中華人民共和國商標法) on 23 August 1982 which was subsequently revised on 22 February 1993, 27 October 2001 and 30 August 2013 aiming at enhancing trademark administration, protecting the right to exclusive use, requiring producers and business operators to ensure the quality of goods and service, maintaining the credit of trademark so as to ensure the interests of consumers, producers and business operators. According to this law, the following activities constitute the infringement of the registered trademarks:

- using the same or similar trademark on the goods or the same category or similar goods without the permission by the trademark owner;
- the sale of goods infringing the exclusive right of the registered trademark;
- fabricating or forging the registered trademark of others or selling fabricated or forged registered trademark;
- changing a registered trademark and launching the goods with such changed trademark in the market without the permission by the trademark owner; and
- causing other damages to the exclusive rights of the other's registered trademark.

Any violator of the exclusive right of the registered trademark would be ordered to immediately stop the infringement activities with a fine imposed and ordered to make compensation to the victim, the department in charge of industry and commerce will forfeit and destroy the infringing goods, and the tools used to make them and to forge the registered trademark.

The domestic subsidiaries of our Group has registered a number of registered trademarks in China and owns a number of patents, the above laws and regulations apply to our group.

LAWS AND REGULATIONS ON FOREIGN EXCHANGE ADMINISTRATION

RMB is the legal currency of China and, as a result of foreign exchange control, it cannot be freely exchanged to foreign currency. The Foreign Exchange Administration, as authorised by the People's Bank of China, is responsible for dealing with all the foreign exchange related issues including implementation of the foreign exchange control. In light of Regulations of the PRC on the Management of Foreign Exchanges* (中華人民共和國外匯管理條例) issued by the State Council on 29 January 1996, which was revised on 14 January 1997 and 5 August 2008, the international revenues, expenditures and transfer are divided into current account and capital account. The foreign exchange under capital account shall be examined and approved by the foreign exchange administration while no such requirement exists for the current account.

The PRC has no restrictions on current international payment and transfer, the international revenue and expenditure statistics and declaration system is implemented instead. The foreign exchange expenditure under current account shall be paid with its own foreign exchange or be bought from financial institutions running foreign exchange settlements and sales by producing the effective vouchers according to the regulations on the payment and purchase in foreign exchange provided by the department in charge of foreign exchange of the State Council. The foreign exchange revenue and expenditure under current account shall be provided with genuine and legitimate transactional basis. The state regulations shall be approved by the competent authorities prior to the registration of foreign exchange. Capital account foreign exchange and settlement funds shall be used in accordance with the purposes approved by the competent authorities (including the foreign exchange administration).

On 20 June 1996, the People's Bank of China issued the Provisions on the Settlement, Sales and Payment in Foreign Exchange* (結匯、售匯及付匯管理規定) which became effective on 1 July 1996, while repealing the other restrictions in the exchange under current account, it continues to implement existing restrictions on the foreign exchange transaction under capital account.

Since 4 January 2006, the People's Bank of China improved the mode of forming the middle exchange rate of RMB; it introduced the quotation trading mode in the inter-bank spot foreign exchange market while the matching mode is maintained. Further, in the above market, the market maker rule is introduced to provide liquidity to the market. After introduction of the quotation trading mode, the matching mode of the middle rate between RMB and US dollar is changed from that decided by the closing price of the matching method in the inter-bank spot foreign exchange market to: the People's Bank of China authorising the Foreign Exchange Trading Center of China to decide and publish the middle rate between RMB and US dollar by way of quotation at 9:15 on each working day.

The settlement and payment of foreign exchange arrangements of the domestic subsidiaries of our Group are regulated by the above laws and regulations.

LAWS AND REGULATIONS ON ENVIRONMENTAL PROTECTION

In the light of the Environmental Protection Law of the PRC* (中華人民共和國環境保護法) ("**Environment Protection Law**") promulgated by the NPCSC on 26 December 1989 and revised on 24 April 2014, and the environmental quality standards of the PRC made by the department in charge of environmental protection of the PRC Council, the governments of the provinces, autonomous regions and municipalities may work out the local environment quality standards for those items not covered by the environmental quality standards of the state, which shall be filed with the department in charge of environmental protection of the State Council.

It is provided in the Environment Protection Law that, the organisations causing environmental pollution and producing other social effects of pollution must take environmental protection into their plans, establish environmental protection liability systems and take effective measures to prevent and cure waste gases, waste water, waste residues, dust, stink gases, radioactive substances as well as the pollution and harm from noise, vibration and electromagnetic radiation.

Design of pollution prevention and control must be provided for construction projects; the pollution prevention and control facilities in the construction projects must be designed, constructed and put into operation simultaneously with the principal projects. Only after the pollution prevention and control facilities have been accepted by the administrative department in charge of approving the environmental impact report, may the construction project be put into operation or use.

Pursuant to the Law of the PRC on Prevention and Control of Atmospheric Pollution* (中華人民共和國大氣污染防治法) promulgated by the NPC Standing Committee on 5 September 1987 and as amended on 26 October 2018, entities the production/operation of which have an impact on atmospheric environment shall conduct the environmental impact assessment and submit the environmental impact assessment documents to the competent authority of environmental protection. The pollutants discharged into the air shall comply with relevant discharge standards and be within the limits under the volume control target requirements of key atmospheric pollutants. The competent department of environmental protection shall under the State Council or the people's governments of provinces, autonomous regions and municipalities formulate the atmospheric environmental quality standards.

Pursuant to the Law of the PRC on Prevention and Control of Water Pollution* (中華人民共和國水污染防治法) promulgated by the NPC Standing Committee on 11 May 1984 and as amended on 15 May 1996, 28 February 2008 and 27 June 2017, and came into effect on 1 January 2018, the environmental impact assessment shall be conducted on new construction, reconstruction and construction expansion projects or other installations on water which directly or indirectly discharge pollutants into the water as defined by the law. The water pollution prevention and treatment facilities of a construction project must be designed, constructed and put into operation simultaneously with the major construction works of the said construction project. The water pollution prevention and treatment facilities shall comply with the requirements of the approved or filed environmental impact assessment documents.

Pursuant to the Guangdong Province Work Programme on the Comprehensive Treatment and Emission Reduction on Volatile Organic Compounds (2018-2020)* (廣東省揮發性有機物(VOCs)整治與減排工作方案 (2018-2020年)) published on 10 April 2018, government of the Guangdong Province focuses on VOC emission control in vehicle manufacturing, refitted vehicle manufacturing, automotive parts and accessories manufacturing and other fields and encourages enterprises to use water-based, VOC-low environmentally friendly paint and coating products to replace those solvent-based paint or coating products used for vehicles maintenance and repair industry.

The business of domestic subsidiaries of our Group involves environmental protection matters and shall be regulated by the above laws and regulations.

LAWS AND REGULATIONS ON EXPORT

In line with the Foreign Trade Law of the PRC* (中華人民共和國對外貿易法) which was issued on 12 May 1994 and was revised on 6 April 2004 and 7 November 2016, foreign trade operators engaged in cargo or technology import or export shall register with the department in charge of foreign trade; if not, the imported or exported cargo will not be cleared by customs.

Based on 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 10 December 2001, some imported cargos are managed by way of quota, others with a permit. The catalogue of the imported cargos with limit is devised, adjusted and published by the department in charge of foreign economy and trade in collaboration with the relevant departments of the State Council.

According to Measures for the Administration of License for the Export of Goods* (貨物出口許可證管理辦法) revised by MOFCOM on 7 June 2008, which took effect on 1 July 2008, exported cargos limited by quota should acquire the relevant permits. The MOFCOM in collaboration with the General Administration of Customs, shall be responsible for making, adjusting and publishing the Catalogue for Goods Subject to the Administration of Export License* (出口許可證管理貨物目錄). Importing or exporting cargos beyond the permit's approved level would incur criminal liability under the relevant provisions regarding smuggling or illegal business operation in the Criminal Law; if no criminal liability is involved, the punishment will be applied on the basis of the relevant provisions in the Customs Law of the PRC* (中華人民共和國海關法); the department in charge of foreign related economy and trading of the State Council may also suspend or even withdraw the relevant permits for foreign trading operation.

The subsidiaries of our group have export businesses, and these export businesses are subjected to provisions of the above-mentioned customs laws and regulations.

LAWS AND REGULATIONS ON LABOUR AND SAFETY

Our Group must abide by various laws and regulations governing labour and safety, including the Labour Law of the PRC* (中華人民共和國勞動法) , the Labour Contract Law of the PRC (中華人民共和國勞動合同法), the Production Safety Law of the PRC* (中華人民共和國安全生產法), the Regulations on Occupational Injury Insurance (工傷保險條例), the Regulations on Unemployment Insurance* (失業保險條例), the Trial Measures for Maternity Insurance of Enterprise Employees* (企業職工生育保險試行辦法), the Provisional Method for Social Insurance Registration Administration*

(社會保險登記管理暫行辦法), the Provisional Regulation on Collection of Social Insurance Premium* (社會保險費征繳暫行條例), the Administrative Regulations on Mutual Accumulation Fund* (住房公積金管理條例) as well as other relevant laws and regulations issued the government bodies of China from time to time.

According to the Labour Law of the PRC* (中華人民共和國勞動法) and the Labour Contract Law of the PRC* (中華人民共和國勞動合同法), Our Group needs to enter into labour contracts with all employees in writing. Our Group needs to pay salaries to the employees not lower than the local minimum salary standard. Our Group also need to provide labour safety and hygiene conditions complying with the relevant regulations and standards.

According to the provisions in the Production Safety Law of the PRC* (中華人民共和國安全生產法), our Group shall ensure a safe production environment complying with the relevant laws, administrative regulations, state standards and industrial standards. Our Group shall provide safety training for the employees; the safety equipment design, manufacture, installation, use, inspection and maintenance shall all comply with the relevant state or industrial standards. Further, our Group shall provide labour protection equipment complying with the PRC or industrial standards to the employees.

According to the Administration of Housing Accumulation Funds* (住房公積金管理條例) promulgated on 24 March 2002, our Group shall register with the center in charge of the administration of the mutual accumulation fund and open bank accounts for mutual accumulation fund for the employees. Our Group needs to pay the mutual accumulation fund for the employees. Particularly, our Group shall register with the department in charge of such fund and within 20 days after registration, open bank accounts at the designated bank for them by examining documents produced by the Housing Accumulation Fund Management Center. For newly recruited employees, within 30 days of their recruitment, our Group shall register with the Housing Accumulation Fund Management Center and open bank accounts at the designated bank for them by examining documents produced by the Housing Accumulation Fund Management Center. The amounts paid by the employees shall be withdrawn from their salaries while the enterprise shall pay fully the amounts on a monthly basis and no arrears are allowed.

According to the Regulations on Occupational Injury* (工傷保險條例), the Regulations on unemployment insurance* (失業保險條例), the Trial Method for Reproduction Insurance of the Enterprise Employees* (企業職工生育保險試行辦法), the Provisional Method for Social Insurance Registration Administration* (社會保險登記管理暫行辦法) and the Provisional Regulation on Collection of Social Insurance Premium* (社會保險費征繳暫行條例), our Group should provide pension insurance, retirement insurance, unemployment insurance, reproduction insurance (for female employees), occupational injury insurance and medical insurance to employees.

According to the Labour Contract Law of the People's Republic of China* (中華人民共和國勞動合同法) promulgated by the NPCSC on 29 June 2007, which took effect on 1 January 2008 and amended on 18 December 2012, dispatched workers enjoy equal pay with the workers of the employing units. The employing unit shall, in accordance with the principle of equal pay for equal work, implement the same method of distribution of remuneration for labour dispatched workers and workers in similar positions in the unit. Where there are no workers in the same or similar positions in the employing unit, the remuneration shall be determined with reference to workers in the same or

similar positions where the employing unit is located. As for the applicable position for dispatched workers, labour dispatch is supplementary in form, which can only be implemented in temporary, auxiliary or alternative jobs. Temporary jobs refer to those that last no more than six months. Auxiliary jobs refer to non-main business posts providing services for main business posts. Alternative jobs refer to positions that can be replaced by other workers within a certain period of time when the workers in the employing unit cannot work due to further studies, vacation and other reasons. With regard to the number of workers dispatched, the employing unit shall strictly control the number of workers dispatched, and shall not exceed a certain proportion of the total amount of workers employed. The specific proportion shall be stipulated by the workers administrative department under the state council.

According to the Interim Provisions on Labour Dispatch* (勞務派遣暫行規定) promulgated by the Ministry of Human Resources and Social Security on 24 January 2014 and effective on 1 March 2014, employers shall strictly control the number of labour dispatch workers, and the number of dispatched workers shall not exceed 10% of the total labour force. Where the number of dispatched workers exceeds 10% of the total number of employed workers before the implementation of these provisions, an adjustment plan shall be formulated and reduced to a prescribed proportion within two years from the date of implementation of these provisions. The employing units shall fulfill their obligations to provide labour protection and labour safety and health conditions for the dispatched workers in accordance with the law. In accordance with the relevant provisions of the Labour Contract Law, if the labour dispatching unit or the employing unit violates the relevant provisions of the law on labour dispatching, the labour administrative department shall order the relevant unit to correct within a time limit. If it fails to make corrections within the time limit, it shall be fined at the rate of RMB 5,000 to RMB 10,000 per person.

The domestic subsidiaries of our Group have a large number of employees and dispatched workers, whose labour, social insurance and housing accumulation fund and other related matters shall comply with the provisions of the above laws and regulations.

CIRCULARS ISSUED BY CHINESE GOVERNMENT ON LISTING AND RESTRUCTURING

The State Administration of Foreign Exchange ("**SAFE**") promulgated the Notice on Issues concerning Foreign Exchange Administration of the Overseas Investment and Financing and the Round-tripping Investment Made by Domestic Residents through Special-Purpose Companies* (國家外滙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（37號文）) ("**Circular 37**") on 4 July 2014 to simplify the approval process and to promote cross-border investment. Circular 37 rescinded Circular 75 and revised regulations of return investments relating to foreign exchange registration. If there is any change in the basic information of a registered offshore special purpose vehicle ("**SPV**") such as changes in the individual shareholders, the name or the permitted expiration date of the operations, or if there are any significant events such as increasing or decreasing in investment, transferring shares or swap, merge, spin-off or other amendment of the material items, the domestic residents shall follow the procedures required for the change of foreign exchange registration of overseas investment under Circular No. 37. In addition, according to the procedural guideline attached to Circular 37, the principle of review has been changed to that of : "the domestic individual resident only needs to register for the SPV which is directly established or controlled (first level)". At the same time, SAFE has issued the Operating Rules for Businesses with respect to the Regulation of Foreign Exchange in Roundtrip Investments* (返程投資外匯管理所涉業

務操作指引) with respect to the registration procedures under Circular 37, which became effective on 4 July 2014 as an attachment of Circular 37. Under the relevant rules, failure to comply with the registration procedures set forth in Circular 37 may result in restrictions imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent company or affiliate, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who control the company from time to time are required to register with SAFE in connection with their investments to the company. As advised by our PRC legal advisers, Circular 37 is not applicable to this Listing.

On 8 August 2006, the MOFCOM, the State-owned Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration for Industry and Commerce, the China securities regulatory commission (the "**CSRC**") and SAFE, jointly issued the M&A Rules, the new regulations on mergers and acquisitions of domestic enterprises by foreign investors, which became effective on 8 September 2006 and revised on 22 June 2009. When a foreign investor changes the nature of the domestic company into a foreign invested enterprise by purchasing the rights of a domestic company or subscribing to increase the capital of a domestic company; or when an overseas investor sets up a foreign invested enterprise in China, and buys the assets of the domestic company and manages the related assets; or when an overseas investor buys the assets of a domestic company by injecting the related assets into a foreign invested enterprise and operating the related assets, the foreign investor must abide by the M&A Rules. The M&A Rules stipulates that a special purpose company refers to an overseas company that is directly or indirectly controlled by a company or a natural person in China for the realization of the rights and interests of a domestic company that is actually owned by a domestic company for overseas listing. In order to realise the overseas listing, through the shareholders of the special purpose company using the company equity held by them as a means of payment, or the special purpose company using its additional shares as a means of payment to buy the shares of the shareholders of the domestic associated companies or the additionally issued shares by such companies, the approval of the CSRC is required. As advised by our PRC legal advisers, the M&A Rules are not applicable to this Listing.

JAPANESE LAWS AND REGULATIONS

This section sets forth the major applicable Japanese laws and regulations in relation to the operation of our business by Euro Asia Japan in Japan during the Track Record Period and up to the Latest Practicable Date.

The Customs Act (No.61 of 1954, as amended)

The Customs Act and other relevant laws and regulations provide for the types of goods the import of which is prohibited or restricted, and with import quotas. The products imported by Euro Asia Japan are the type of goods the import of which is so prohibited or restricted.

The Customs Tariff Act (No.54 of 1910, as amended)

The Customs Tariff Act sets forth the rates, imposition standards and reduction and exemption of import duty, including special duty such as anti-dumping duty and safeguard duty. An importer in Japan is required to report and pay the import duty for importing a product which is subject to import duty in accordance with this Act. As Euro Asia Japan imports products from foreign countries, it should report and pay the import duty for importing such products in accordance with this Act.

The Product Liability Act (Act No.85 of July 1, 1994)

The Product Liability Act sets forth the liabilities of a manufacturer or importer for damages caused by defects in a product. A seller who was not involved in the manufacturing or import of a product could still be liable under this Act if its name was indicated on the product and consumers are led to believe that the seller was the manufacturer or importer. Liability under this Act can be imposed even if the manufacturer or importer (and the said seller) was not negligent. As Euro Asia Japan sells our products in Japan, liabilities under this Act may be imposed to Euro Asia Japan if any damages are caused by defects in such products.

The Labour Laws

There are various labour-related laws enacted in Japan, including the Labour Standards Act (Act No. 49 of April 7, 1947, as amended), the Industrial Safety and Health Act (Act No. 57 of 1972, as amended), and the Labour Contract Act (Act No. 128 of December 5, 2007). The Labour Standards Act regulates, among others, minimum standards for working conditions such as working hours, leave period and leave days. The Industrial Safety and Health Act requires, among others, the implementation of measures to secure employee safety and protect the health of workers in the workplace. The Labour Contract Act regulates, among others, the change of terms of employment contracts and working rules, dismissal and disciplinary action. As Euro Asia Japan employs workers in Japan, liabilities under these laws are imposed to Euro Asia Japan, and therefore, Euro Asia Japan should comply with these laws.

The Consumption Tax Act (Act No.47 of May 19, 1993, as amended)

The Consumption Tax Act provides for a multi-step, broad-based tax imposed on most transactions in goods and services in Japan. Consumption tax is assessed at each stage of the manufacturing, importing, wholesale and retail process. The current consumption tax rate is 8% (6.3% imposed as national tax and 1.7% as local tax). The Japanese government announced its intention to increase the consumption tax to 10% (7.8% imposed as national tax and 2.2% as local tax) with effect from 1 October, 2019. As Euro Asia Japan sells products in Japan, consumption tax is imposed on such transactions.

Trademark Act (Act No.127 of April 13, 1959, as amended)

The Trademark Act aims to protect registered trademarks. A holder of registered trademark right or an exclusive licensee thereof may demand a person who infringes or is likely to infringe the trademark right or the exclusive right to use to stop or prevent such infringement. As Euro Asia Japan registered a trademark in Japan, it has the rights stipulated in this Act.

Design Act (Act No.125 of April 13, 1959, as amended)

The Design Act aims to promote the protection and utilisation of design. It protects registered designs. A holder of a registered design right or an exclusive licensee thereof may demand of a person who infringes or is likely to infringe the design right or exclusive license to stop or prevent such infringement. Euro Asia Japan may be subject to the rights and obligations stipulated in this Act, if it holds or infringes any registered design rights in Japan.

Foreign Exchange and Foreign Trade Act (No.228 of December 1, 1949, as amended)

The Foreign Exchange and Foreign Trade Act aims to promote and control foreign exchange and foreign trade activities. No specific restriction under Japanese laws applies to the payment and remittance to our Group by its customers located in Japan of purchase price of the types of goods sold by our Group to such customers. A post notification to the Bank of Japan shall be made under this law by 15th days of the month immediately following the month in which our Group establishes its subsidiary in Japan.

Companies Act (Act No. 86 of 2005, as amended)

The Companies Act regulates the incorporation, internal organisation, operation and liquidations, etc., of a company incorporated in Japan. Our Group may incorporate a company in Japan by applying for and obtaining the registration of such company in the relevant legal bureau in Japan. As a Japanese company, Euro Asia Japan should comply with the provisions in this Act.

High Pressure Gas Safety Act (Act No. 204 of June 7, 1951) and its subordinate regulations

High Pressure Gas Safety Act regulates the production, storage, sale, transportation and other matters related to the handling and consumption of high pressure gases, etc. with the aim of securing public safety by preventing accidents and disasters caused by high pressure gases. The provisions of this Act shall not be applied to high pressure gases specified by a Cabinet Order as having no possibility of causing accidents or disasters. A person who intends to produce (including the filling of containers), store certain amount of or sell high pressure gas shall, as the case may be, obtain the permission from or submit a notification report to the relevant authorities. Any person who has imported high pressure gas shall, in principle, have the imported high pressure gas and the container therefor undergo import inspection by the prefectural governor and may not move them until they have been verified as being in conformity with the technical standards for import inspection. The maximum penalty for the breach of the above provisions shall be imprisonment with work of not more than 1 year or a fine of not more than JPY1,000,000, or both. In the event of any violation of the above regulations by a representative of a juridical person or by an agent, employee or other worker of a juridical person or individual in relation to the business of such juridical person or individual, such juridical person or individual shall be punished by a fine as written above as well as the performer (actual offender) being punished by a punishment thereunder. Although Euro Asia Japan imports, stores, transports and sells high pressure gases in Japan, as far as those are the gases stipulated to be having no possibility of causing accidents or disasters, Euro Asia Japan does not need to have its imported products inspected by, obtain permission from or notify the relevant authorities under this Act.

SANCTIONS LAWS AND REGULATIONS

During the Track Record Period, we made sales of our aerosol and non-aerosol products to certain customers located in Countries subject to International Sanctions, including Afghanistan, Lebanon, Russia, Iran, Iraq, Yemen and Haiti. Hogan Lovells, our International Sanctions Legal Advisers, have provided the following summary of the sanctions regimes imposed in the respective jurisdictions below. This summary does not intend to set out the laws and regulations relating to the U.S., the European Union, the United Nations and Australian sanctions in their entirety.

U.S.

Treasury regulations

The OFAC is the primary agency responsible for administering U.S. sanctions programmes against targeted countries, entities, and individuals. "Primary" U.S. sanctions apply to "U.S. persons" or activities involving a U.S. nexus (e.g., funds transfers in U.S. currency or activities involving U.S.-origin goods, software, technology or services even if performed by non-U.S. persons), and "secondary" U.S. sanctions apply extraterritorially to the activities of non-U.S. persons even when the transaction has no U.S. nexus. Generally, U.S. persons are defined as entities organised under U.S. law (such as companies and their U.S. subsidiaries); any U.S. entity's domestic and foreign branches (sanctions against Iran and Cuba also apply to U.S. companies' foreign subsidiaries or other non-U.S. entities owned or controlled by U.S. persons); U.S. citizens or permanent resident aliens ("green card" holder), regardless of their location in the world; individuals physically present in the United States; and U.S. branches or U.S. subsidiaries of non-U.S. companies.

Depending on the sanctions program and/or parties involved, U.S. law also may require a U.S. company or a U.S. person to "block" (freeze) any assets/property interests owned, controlled or held for the benefit of a sanctioned country, entity, or individual when such assets/property interests are in the United States or within the possession or control of a U.S. person. Upon such blocking, no transaction may be undertaken or effected with respect to the asset/property interest — no payments, benefits, provision of services or other dealings or other type of performance (in case of contracts/agreements) — except pursuant to an authorisation or license from OFAC.

OFAC's comprehensive sanctions programmes currently apply to Cuba, Iran, North Korea, Syria, and the Crimea region of Russia / Ukraine (the comprehensive OFAC sanctions programme against Sudan was terminated on 12 October 2017). OFAC's limited programmes apply to Belarus, Burundi, Central African Republic, Democratic Republic of the Congo, Iraq, Lebanon, Liberia, Libya, Somalia, South Sudan, Ukraine/Russia, Venezuela, Yemen and Zimbabwe. OFAC also prohibits virtually all business dealings with persons and entities identified in the SDN List. Entities that a party on the SDN List owns (defined as a direct or indirect ownership interest of 50% or more, individually or in the aggregate) are also blocked, regardless of whether that entity is expressly named on the SDN List. Additionally, U.S. persons, wherever located, are prohibited from approving, financing, facilitating, or guaranteeing any transaction by a non-U.S. person where the transaction by that non-U.S. person would be prohibited if performed by a U.S. person or within the United States.

United Nations

The United Nations Security Council (the "**UNSC**") can take action to maintain or restore international peace and security under Chapter VII of the United Nations Charter. Sanctions measures encompass a broad range of enforcement options that do not involve the use of armed force. Since 1966, the UN Security Council has established 30 sanctions regimes.

The UNSC sanctions have taken a number of different forms, in pursuit of a variety of goals. The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The UNSC has applied sanctions to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation.

There are 14 ongoing 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 UNSC. There are nine monitoring groups, teams and panels that support the work of the sanctions committees.

United Nations sanctions are imposed by the UNSC, usually acting under Chapter VII of the UN Charter. Decisions of the UNSC bind members of the United Nations and override other obligations of United Nations member states.

European Union

Under European Union sanction measures, there is no "blanket" ban on doing business in or with a jurisdiction targeted by sanctions measures. It is not generally prohibited or otherwise restricted for a person or entity to do business (involving non-controlled or unrestricted items) with a counterparty in a country subject to European Union sanctions where that counterparty is not a Sanctioned Person or not engaged in prohibited activities, such as exporting, selling, transferring or making certain controlled or restricted products available (either directly or indirectly) to, or for use in a jurisdiction subject to sanctions measures.

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.

HONG KONG LAWS AND REGULATIONS

This section sets forth the major applicable Hong Kong laws and regulations in relation to the operation of our business in Hong Kong during the Track Record Period and up to the Latest Practicable Date.

Inland Revenue Ordinance

The Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "**Inland Revenue Ordinance**") provides that profits tax shall be charged on every person carrying on a trade, profession or business in Hong Kong in respect of his assessable profits arising in or derived from Hong Kong at the standard rate. Every person carrying on a trade, profession or business in Hong Kong is required to keep sufficient records of his income and expenditure and shall retain such records for a period of not less than seven years from the transaction date. The Inland Revenue (Amendment) (No.6) Ordinance 2018 was effective from 13 July 2018 and section 20 of IRO was repealed accordingly.

As at the Latest Practicable Date, we had two employees (exclusive of Directors) were based in Hong Kong.

Regulations concerning transfer pricing

On 4 December 2009, the Inland Revenue Department released Departmental Interpretation and Practice Notes No. 46 — "Transfer Pricing Guidelines — Methodologies and Related Issues" (the "**DIPN 46**"). The DIPN 46 provides clarifications and guidance on the Inland Revenue Department's views on transfer pricing and how it intends to apply the existing provisions of the Inland Revenue Ordinance to establish whether related parties are transacting at arm's length prices. In general, the practice followed by the Inland Revenue Department will not differ from the transfer pricing methodologies recommended by the OECD Guidelines.

The DIPN 46 states that although contemporaneous documentation is not mandatory, taxpayers are encouraged to prepare transfer pricing documentation consistent with the OECD Guidelines. The DIPN 46 sets out the key documents which it considers relevant for Hong Kong enterprises to maintain to support their transfer pricing arrangements.

The DIPN 46 explains the selection of transfer pricing methodologies, describing in detail all the OECD methods, including but not limited to the comparable uncontrolled price, resale price, cost plus, profit split and the transactional net margin method.

The DIPN 46 relies primarily on the statutory provision sections 16, 17, 20, 61 and 61A of the Inland Revenue Ordinance as the basis for the Commissioner's powers in making transfer pricing adjustments.

Section 20 of the Inland Revenue Ordinance provides that where transactions between a resident person and a closely connected non-resident person are so arranged that the business done by the resident person produces either no profits or less than the ordinary profits which might be expected to arise in Hong Kong, the business done by the non-resident person shall be deemed to be carried out in Hong Kong, and such non-resident person shall be assessable and chargeable to tax in respect of his profits from such business in the name of the resident person as if the resident were his agent. A person is closely connected with another person if they are substantially identical or that the ultimate controlling interest of each is owned or deemed under this section to be owned by the same person(s).

The Inland Revenue Department may also apply the general anti-avoidance provision, for instance, section 61A of the Inland Revenue Ordinance to prevent trafficking in transfer pricing. If it can be concluded that, after having regard to the seven factors listed out in the section, the taxpayer entered into or carried out a transaction for the sole or dominant purpose of obtaining a tax benefit, the Inland Revenue Department may disregard the transaction as if it had not taken place, or assess the taxpayer in other manner as the Assistant Commissioner considers appropriate to counteract the tax benefit that would otherwise be obtained.

It is the Inland Revenue Department's general practice to apply the arm's length principle in examining transactions between a Hong Kong company and its closely connected non-resident persons. There is a trend with the Inland Revenue Department issuing more and more enquiries about transfer pricing on taxpayers requesting them to submit documentary evidence to support the arm's-length nature of the intercompany transactions.

For details of our transfer pricing arrangement, please refer to the section headed "Business — Legal compliance — Transfer pricing" in this listing document.