

REGULATORY OVERVIEW

This section sets forth a summary of the laws and regulations applicable to our operations in Hong Kong, PRC and Macau.

HONG KONG

Occupational safety and health

The Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) provides for the safety and health protection to employees in workplaces, both industrial and non-industrial.

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

- providing and maintaining plant and work systems that do not endanger safety or health;
- making arrangement for ensuring safety and health in connection with the use, handling, storage or transport of plant or substances;
- providing all necessary information, instruction, training, and supervision for ensuring safety and health;
- providing and maintaining safe access to and egress from the workplaces; and
- providing and maintaining a safe and healthy work environment.

Employees’ compensation

The Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) establishes a no-fault and non-contributing employee compensation system for work injuries and lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases.

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

According to section 40 of the Employees’ Compensation Ordinance, all employers (including contractors and sub-contractors) are required to take out insurance policies to cover their liabilities both under the Employees’ Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees).

Contractor and sub-contractor

A principal contractor and a superior sub-contractor are subject to the provisions on sub-contractor’s employees’ wages in the Employment Ordinance (Chapter 57 of the Laws of Hong Kong). Section 43C of the Employment Ordinance provides that if any wages become due to an employee who

REGULATORY OVERVIEW

is employed by a sub-contractor on any work which the sub-contractor has contracted to perform, and such wages are not paid within the period specified in the Employment Ordinance, such wages shall be payable by the principal contractor and/or every superior subcontractor jointly and severally. Such liability shall be limited (a) to the wages of an employee whose employment relates wholly to the work which the principal contractor and/or superior sub-contractor has contracted to perform and whose place of employment is wholly on the site of the building works; and (b) to the wages due to such an employee for two months without any deductions under the Employment Ordinance (such months shall be the first two months of the period in respect of which the wages are due).

An employee who has outstanding wage payments from sub-contractor must serve a notice in writing on the principal contractor within 60 days after the wage due date. A principal contractor and superior sub-contractor (where applicable) shall not be liable to pay any wages to the employee of the sub-contractor if that employee fails to serve a notice on the principal contractor. Upon receipt of such notice from the relevant employee, a principal contractor shall, within 14 days after receipt of the notice, serve a copy of the notice on every superior sub-contractor to that sub-contractor (where applicable) of whom he is aware.

Pursuant to section 43F of the Employment Ordinance, if a principal contractor or superior subcontractor pays to an employee any wages under section 43C of Employment Ordinance, the wages so paid shall be a debt due by the employer of that employee to the principal contractor or superior sub-contractor, as the case may be.

The principal contractor or superior sub-contractor may either (i) claim contribution from every superior sub-contractor to the employee’s employer or from the principal contractor and every other such superior sub-contractor as the case may be, or (ii) deduct by way of set-off the amount paid by him from any sum due or may become due to the sub-contractor in respect of the work that he has sub-contracted.

Minor works

The Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong) (“**Minor Works Regulation**”) is a subsidiary legislation under the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) and provides for a simplified procedure and requirements to regulate building works which have been specified as “minor works”.

Under the Minor Works Regulation, minor works are classified into three classes according to their nature, scale and complexity and the risk and safety they pose. The works are further classified into types and items that correspond to the specialization of works in the industry. Class II and Class III minor works, can be carried out by a prescribed registered contractor (“**Registered Contractor**”) without the involvement of a prescribed building professional.

Registered Minor Works Contractors may be body corporates, partnerships, sole proprietorship or individuals and have to satisfy the Building Authority that their personnel possess the necessary technical qualifications and work experience before they could be registered under the Buildings Ordinance.

The Building Authority must be notified of the commencement of projects involving Class II minor works items, in the specified form with prescribed plans, supporting document and site photos, which must be submitted at least seven days before the commencement of works. The Building

REGULATORY OVERVIEW

Authority will issue a submission number after the verification of all works involved are “minor works” and a certificate of completion should be submitted in the specified form with the submission number, record plans, supporting document and record photos within 14 days after the completion of works.

For projects in which only Class III minor works are involved, it is not necessary to notify the Building Authority of the commencement of the projects. However, notice and certificate of completion should be submitted in the specified form with record plans or description of works, supporting document and record photos (before and after the completion of works) within 14 days after the completion of works.

The Building Authority will conduct audit checks upon receipt of the above notices to ascertain compliance with the statutory requirements and ensure the quality and standard of such “minor works”. Disciplinary and prosecution actions may be taken against cases of non-compliance.

Occupiers liability

The Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong) regulates the obligations of a person occupying or having control of premises on injury resulting to persons or damage caused to goods or other property lawfully on the land.

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

Air pollution control

The Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong) is the principal legislation in Hong Kong for controlling emission of air pollutants and noxious odor from construction, industrial and commercial activities and other polluting sources. Subsidiary regulations of the Air Pollution Control Ordinance impose control on air pollutant emissions from certain operations through the issue of licenses and permits.

A contractor shall observe and comply with the Air Pollution Control Ordinance and its subsidiary regulations, particularly the Air Pollution Control (Open Burning) Regulation (Chapter 311O of the Laws of Hong Kong), the Air Pollution Control (Construction Dust) Regulation (Chapter 311R of the Laws of Hong Kong) and the Air Pollution Control (Smoke) Regulation (Chapter 311C of the Laws of Hong Kong). The contractor responsible for a construction site (which is defined to mean a place where construction work is carried out and area in the immediate vicinity of any such place which is used for the storage of materials or plant used or intended to be used for the purpose of the construction work) shall devise, arrange methods of working and carrying out the works in such a manner so as to minimize dust impacts on the surrounding environment, and shall provide experienced personnel with suitable training to ensure that these methods are implemented. Asbestos control provisions in the Air Pollution Control Ordinance require that building works involving asbestos must be conducted only by registered qualified personnel and under the supervision of a registered consultant.

REGULATORY OVERVIEW

Noise control

The Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong) controls the noise from construction, industrial and commercial activities. A contractor shall comply with the Noise Control Ordinance and its subsidiary regulations in carrying out general construction work. For construction activities that are to be carried out during the restricted hours and for percussive piling at all times, construction noise permits are required from the Environmental Protection Department in advance.

Under the Noise Control Ordinance, noisy construction work and the use of powered mechanical equipment in populated areas are not allowed between 7 p.m. and 7 a.m. or at any time on general holidays, unless prior approval has been granted by the Environmental Protection Department through the construction noise permit system. Certain equipment is also subject to restrictions when its use is allowed. Hand-held percussive breakers and air compressors must comply with noise emissions standards and be issued with a noise emission label from the Environmental Protection Department. Percussive pile-driving is allowed on weekdays only with prior approval, in the form of a construction noise permit from the Environmental Protection Department.

Waste disposal

The Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong) controls the production, storage, collection, treatment, recycling and disposal of wastes. At present, livestock waste and chemical waste are subject to specific controls whilst unlawful deposition of waste is prohibited. Import and export of waste is generally controlled through a permit system.

A contractor shall observe and comply with the Waste Disposal Ordinance and its subsidiary regulations, particularly the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Chapter 354N of the Laws of Hong Kong) and the Waste Disposal (Chemical Waste) (General) Regulation (Chapter 354C of the Laws of Hong Kong).

Under the Waste Disposal (Charges for Disposal of Construction Waste) Regulation, a main contractor who undertakes construction work with a value of HK\$1 million or above will be required to establish a billing account with the Environmental Protection Department to pay any disposal charges payable in respect of the construction waste generated from construction work undertaken under that contract.

Under the Waste Disposal Ordinance, a person shall not use, or permit to be used, any land or premises for the disposal of waste unless he has a license from the Environmental Protection Department.

Competition

The Competition Ordinance (Chapter 619 of the Laws of Hong Kong) regulates anti-competitive conduct such as price fixing, market allocation and bid rigging or collusion. The following conducts can be found unlawful:

- unprofitable pricing to gain market share and put pressure on competitors unable to compete;
- tying (one product can only be bought or used if another product is also bought);

REGULATORY OVERVIEW

- bundling (two or more products offered together at a discount);
- exclusive dealing arrangements or imposition of tougher pricing and terms for certain customers;
- sharing of pricing, information and agreement of practices/pricing through trade associations; and
- joint ventures/tenders by competitors capable of bidding independently.

PRC

Incorporation, operation and management of wholly foreign-owned enterprise

The establishment, operation and management of corporate entities in China are governed by the PRC Company Law (中華人民共和國公司法) (the “**PRC Company Law**”), which was promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) (the “**Standing Committee of the NPC**”) on December 29, 1993 and became effective on July 1, 1994. It was subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013. Pursuant to the PRC Company Law, companies are classified into limited liability companies and limited companies by shares. Foreign-invested companies, both limited liability companies and companies limited by shares, are also regulated by the PRC Company Law, except for where foreign-investment related rules and regulations prevail.

The Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the “**Wholly Foreign-owned Enterprise Law**”), promulgated on April 12, 1986 and amended on October 31, 2000, and the Implementation Regulations of the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則) (the “**Implementation Regulations**”), promulgated on December 12, 1990 and amended on April 12, 2001 and February 19, 2014 govern the establishment procedures, approval procedures, registered capital requirement, foreign exchange, accounting practices, taxation and labor issue of a wholly foreign-owned enterprise.

The PRC government directs the investment orientation of all types of enterprises in different industries within the territory of the PRC, manages investment programs, and formulates and implements financial, taxation, credit, land, import, export and other policies by means of formulating the Catalog of Industries for Guiding Foreign Investment, (外商投資產業指導目錄) (the “**FI Catalog**”). The Catalog of Industries for Guiding Foreign Investment (2015 Amendment) (外商投資產業指導目錄 (2015年修訂)) was promulgated by the NDRC together with the MOFCOM on March 10, 2015 and became effective on April 10, 2015. The FI Catalog divides industries into three categories: encouraged, restricted and prohibited. Unless otherwise stipulated by laws or regulations, a foreign investor may invest in industries that are not classified as prohibited.

According to the FI Catalog (2015 Amendment), foreign investors are permitted to invest, on a wholly-owned basis, in the wholesale, import and export of furniture, lamps, wood, metal products, electronic products, decoration materials, chemical raw materials (excluding dangerous goods), plastic products and related ancillary business.

REGULATORY OVERVIEW

Tax

Enterprise income tax

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “**EIT Law**”) and the Implementation Rules of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), effective on January 1, 2008, enterprises are classified as either resident enterprises or non-resident enterprises for tax purpose. Resident enterprises are enterprises which have been formed in the PRC in accordance with domestic law, or which have been formed in accordance with the law of a foreign country but which are actually under the control of institutions in the PRC. A resident enterprise must pay enterprise tax on its worldwide income a rate of 25%.

A non-resident enterprise which has established agencies or offices in China shall pay enterprise income tax on its income earned by such agencies or offices from inside China, and its income which is earned outside China but is actually associated with such agencies or offices. The rate of enterprise income tax is 25%.

A non-resident enterprise which hasn’t established agencies or offices in China, or which has established agencies or offices in China but whose income has no association with such agencies or offices shall pay enterprise income tax on its income earned from inside China. The rate of enterprise income tax is 20%.

At present, Crosstec (Shenzhen) is subject to EIT rates of 25%.

Value-added tax

Organizations and individuals, who sell commodities, provide processing, repairing or replacement services, or import commodities within the territory of the PRC are subject to value-added tax (the “**VAT**”) in accordance with the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) (the “**Provisional Regulations on VAT**”) and its implementation rules. The Provisional Regulations on VAT was promulgated by the State Council of the PRC (國務院) which became effective on January 1, 1994 and was amended on November 5, 2008. The rate of the VAT is either 17% or 13%, depending on the goods being sold. For taxpayers exporting goods, the tax rate is zero percent except as otherwise stipulated by the State Council.

At present, Crosstec (Shenzhen) is subject to VAT rates of 17%.

Foreign currency exchange

The principal regulation governing foreign currency exchange in the PRC is the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the “**Foreign Exchange Administration Rules**”) which was promulgated by the State Council of the PRC on January 29, 1996, became effective on April 1, 1996 and was amended on January 14, 1997 and August 5, 2008. Under these regulations, upon payment of the applicable taxes, foreign-invested enterprises may convert the dividends they receive in Renminbi into foreign currencies and remit such amounts outside the PRC through their foreign exchange bank accounts.

REGULATORY OVERVIEW

In general, the PRC government does not set a limit on the regular exchange international payment and transfer accounts. Foreign-invested enterprises are allowed to convert Renminbi into foreign currencies and remit abroad without the prior approval of the SAFE or its local branches: (i) when settling current account items in foreign currencies (in such case, payments must be made from their foreign exchange accounts and valid receipts and other related documents must be provided); and (ii) when distributing dividends to foreign investors (in such case, payments must be made from their foreign exchange accounts and the written resolutions of the board of directors on divided distribution and other related documents must be provided).

In other cases, including the settlement of foreign exchange under capital accounts (such as direct investment and increases in registered capital), foreign-invested enterprises may not convert Renminbi into foreign currencies or convert foreign currencies into Renminbi without the prior approval or registration of SAFE or its local branches.

MACAU

Corporate establishment and operation

The establishment, operation and management of corporate entities in Macau is governed by the Macau Commercial Code, approved by Decree-Law 40/99/M dated August 3, 1999, as amended (the “**Commercial Code**”).

According to the Commercial Code, a limited liability company may take the form of a “sole-shareholder limited liability company” (*sociedade por quotas unipessoal*), on which the shares of the company are fully held by one entity only. The legal provisions concerning limited liability companies apply equally to sole-shareholder limited liability companies with the following restrictions: (i) a sole-shareholder limited liability company cannot be held by another sole-shareholder limited liability company incorporated in Macau; and (ii) all transactions between the company and its sole shareholder must be done in writing, be necessary, useful or convenient to the pursuit of the company’s interests and must be audited by a chartered auditor, which shall declare that the interests of the company are duly protected and that the transaction is in accordance with standard market conditions and price.

Fit-out works

The fit-out works regime in Macau is essentially regulated in Decree-Law 79/85/M dated August 21, 1985 (the “**General Construction Works Regulation**”).

The General Construction Works Regulation establishes administrative rules governing the process of approval of projects, licensing and supervision of construction works to be carried out in Macau. For the purposes of this regulation, the construction of new buildings, as well as reconstructions, restorations, repairs, modifications or expansions in existing buildings, demolitions of buildings and any further works that determine a change in topography and soil application infrastructures are qualified as “*construction works*”. Pursuant to the said regulation, a construction works project designer, director, supervisor or constructor, whether individual or corporate, must register with the Macau Public Works and Transportation Bureau (“**DSSOPT**”), in order to legally carry out works which are qualified as construction works under the General Construction Works Regulation. Moreover, the direction of any

REGULATORY OVERVIEW

construction works carried out in Macau must be done by a technician also duly registered with DSSOPT for the respective sectors of construction works under the Law 1/2015 dated January 5, 2015 (the “**Urban Construction and Planning Qualification Regime**”).

Fit-out works qualification

The project licensing regime set out in the General Construction Works Regulation and the registration requirements set out in the Urban Construction and Planning Qualification Regime are applicable to fit-out works which qualify as construction works under the General Construction Works Regulation, and expressly excludes modification works, maintenance and repairs within a residential unit which includes all interior alteration that do not alter the use of the unit, the structure or the area, main door span, exterior walls, window openings in the exterior walls or water supply or drainage network, in which case no design or project approval is legally required.

Fit-out works in a non-residential unit with area no greater than 120 square meters are also not subject to the project licensing regime set out in the General Construction Works Regulation, provided that such modification, maintenance or repair works do not alter the use of the unit or the building structure, or affect normal operation of the fire prevention system, and maintenance and repair work performed on the exterior walls of the facades of non-residential ground-floor units and replacement of fit-out or walls, which do not disturb other fractions of the same building. This includes modifying façade with brickworks, glass, slabs or other materials, opening doors on the wall. In the case of interior area of a unit, it includes general painting, furniture and equipment fitting, removal of existing partition, repair, replacement or change of false ceilings, interior wall finishes, room door, in-unit supply of electrical power, floor finishes, skirting, toilet accommodation, in-unit supply pine system or in-unit discharge pine system, construction of partition walls with brickworks, glass, slabs or other materials. In these cases, a simple prior notice to DSSOPT is satisfactory.

Sub-contractor’s registration requirements

Registration requirements

In order to make a prior notice to, or to obtain a construction work license from DSSOPT, it is compulsory to submit a declaration of an individual or a corporate constructor registered with DSSOPT to undertake all liability arising from relevant works and to comply with all architectural technique requirements. If the prior notice or construction work license is made or obtained by the project’s sub-contractors or trade contractors duly registered with DSSOPT, or any other entity carrying out and directing the works is works duly registered with DSSOPT, the main contractor or the first trade contractor of the works is not required to be registered with DSSOPT or to make or obtain an independent prior notice or license.

Registration procedure

The procedure for the registration with the DSSOPT, provided for in Article 8 of the General Construction Works Regulation, is routine and administrative in nature and, should all documents and information be provided to DSSOPT’s satisfaction, no legal obstacle in completing registration is foreseeable. The abovementioned registration of an individual or corporate project designer, director, supervisor or constructor shall be renewed annually.

REGULATORY OVERVIEW

Based on the advice of the Macau counsel, our Directors confirm that our Group does not directly carry out any fit-out works on its own as a contractor or as a sub-contractor in Macau, and that all works sub-contracted to third parties do not qualify as construction works under the General Construction Works Regulation. Hence, the Group is not subject to the above registration, licensing or notification requirements. Our Directors further confirm that, in the event that fit-out works require notification to, or licensing from, DSSOPT, the sub-contractors appointed to carry out such works shall be duly registered with DSSOPT and that therefore the operation mode of the Group’s business operations in Macau is valid and complies with the laws of Macau.

Foreign exchange, dividend distribution and repatriation of funds

The Macau Pataca is freely convertible and there are no restrictions affecting the remittance or repatriation of funds, namely, the repatriation of dividends. There are no currency control regulations, no currency control restrictions or approval requirements applicable to any outbound foreign currency transfers.

Unless otherwise stated in the respective articles of association, the shareholder of a Macau company is entitled to dividends in the proportion of its relevant shareholdings, as approved on the annual general meeting of the company and upon approval of the annual accounts of the previous financial year.

Distributable dividends are calculated on the basis of the profit of the company for each financial year, determined in accordance with the Macau accounting standards and regulations, which exceeds the aggregate of its share capital and the sums that shall integrate the mandatory and voluntary reserves on that financial year.

A Macau company may pay dividends before or after taxes.