

MEMORANDUM
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To Ruichang International Holdings Limited
First Shanghai Capital Limited

Subject International Sanctions Risk Exposure

From Nate Bush, DLA Piper

Date June 28, 2024

I Introduction

1. DLA Piper Singapore Pte Ltd. (“DLA Piper” or “we”) has been engaged to act as international sanctions counsel to Ruichang International Holdings Limited (together with its subsidiaries, “Ruichang” or the “Company”) in connection with the proposed initial public offering (the “Offering”) and listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “HKEX”).
2. This Memorandum (the “Memorandum”) assesses whether the Company would be deemed unsuitable for listing on the HKEX or would otherwise be subject to material international sanctions risks based on the standards set forth in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and/or the HKEX guidance letter HKEX-GL101-19 (the “HKEX Sanctions Guidance”) effective from March 2019.¹
3. Specifically, this Memorandum assesses, for purposes of the HKEX Sanctions Guidance, whether the Company: (1) has engaged in Primary Sanctioned Activity (as defined below) that violates applicable laws or regulations in the Relevant Jurisdiction(s) (as defined below) within the Track Record Period (the “TRP”); (2) has engaged in Secondary Sanctionable Activity (as defined below) during the TRP that would likely result in the imposition of any sanctions against the Relevant Persons; or (3) is a Sanctioned Target (as defined below), is located, incorporated, organized or resident in a Sanctioned Country (as defined below), or is a Sanctioned Trader (as defined below).

¹ HKEX Guidance Letter, HKEX-GL101-19, “Guidance on Sanctions Risks” (March 2019), *available at* https://en-rules.hkex.com.hk/sites/default/files/net_file_store/gl101-19.pdf.

4. This Memorandum is structured as follows:
- This Section 0 introduces the scope of our engagement.
 - Section II defines the meaning of certain general terms and expressions for the purposes of this Memorandum.
 - Section III provides an executive summary.
 - Section IV summarizes the facts upon which this Memorandum relies.
 - Section V identifies the Relevant Jurisdictions for the purposes of this analysis.
 - Section VI assesses risks involving Primary Sanctioned Activity.
 - Section VII assesses risks involving Secondary Sanctionable Activity.
 - Section VIII assesses risks that the Company may qualify as a Sanctioned Target, be based in a Sanctioned Country, or qualify as a Sanctioned Trader.
 - Section IX provides our conclusion regarding the Company’s suitability for listing in light of its overall sanctions risks based on the standards set forth in the HKEX Sanctions Guidance.
 - Section X summarizes limitations and qualifications applicable to the entirety of this Memorandum.

II Definitions

5. For the purposes of this Memorandum, unless otherwise stated, the following terms shall have the following meanings:
- “China” or “PRC” means the People’s Republic of China, but for the purposes of this Memorandum only and except where the context requires otherwise, references in this Memorandum to “China” or “PRC” do not include the Hong Kong Special Administrative Region (“Hong Kong S.A.R”), the Macau Special Administrative Region, and Taiwan.
 - “The Company” or “Ruichang” means Ruichang International Holdings Limited together with its subsidiaries, including those entities controlled through contractual arrangements.
 - “Exchange” means the HKEX.
 - “Indirect Iran Sales” means four transactions entered in 2018 and 2019 (before the TRP) but completed during the TRP through which the Company sold products to unaffiliated Chinese Resellers and such products were ultimately transferred to Iranian End-Users.
 - “IPO” means initial public offering.
 - “Luoyang Ruichang” means Luoyang Ruichang Environmental Engineering Co., Ltd. (洛阳瑞昌环境工程有限公司) (previously known as Luoyang Ruichang Petrochemical Equipment Co., Ltd (洛阳瑞昌石油化工设备有限公司)), a limited

liability company established in China on January 25, 1994 and a wholly owned subsidiary of the Company.

- “SDN” means an individual or entity designated on the list of Specially Designated Nationals and Blocked Persons as published by the U.S. Department of Treasury.
 - “Shanghai Ruiqieer” means Ruiqieer Petro-chemical Engineering (Shanghai) Co., Ltd. (瑞切尔石化工程(上海)有限公司) (previously known as Ruiqieer Petro-chemical Equipment (Shanghai) Co., Ltd. (瑞切尔石化设备(上海)有限公司)), a limited liability company established in the PRC on December 12, 2002 and a wholly owned subsidiary of the Company.
 - “SRU” means sulphur recovery units, being a series of equipment used for recovering elemental sulphur from gaseous hydrogen sulphide.
 - “TRP” means the period comprising the three years ending December 31, 2023.
 - “United States person” or “U.S. person” means any United States citizen, permanent resident alien, entity organized under the laws of the United States or any jurisdiction within the United States (including foreign branches), or any person in the United States.²
 - “VOCs” means volatile organic compounds which have high vapour pressure at room temperature and cause air pollution and smog. VOCs incineration means an incineration system designed to destroy VOCs emitted during the production of petroleum products to control air pollutant emission.
 - “Voluntary Self Disclosure” or “VSD” means the self-initiated notification to OFAC of an apparent violation by a subject person that has committed, or otherwise participated in, an apparent violation of a statute, Executive Order, or regulation administered or enforced by OFAC.
6. The HKEX Sanctions Guidance does not explicitly define the term “sanctions.” However, the introduction states that “[c]ertain overseas jurisdictions may from time to time impose trade or economic sanctions on specific countries, governments, entities or persons by restricting their nationals from making assets or services available, directly or indirectly, to them, dealing with their assets or otherwise conducting commercial transactions with them.”³
7. Accordingly, “International Sanctions” means, for the purpose of this Memorandum, any “measures enacted by jurisdictions as trade or economic sanctions against foreign countries, governments, entities or persons by restricting the enacting jurisdictions’ nationals from making assets or services available, directly or indirectly, to them, dealing with their assets or otherwise conducting commercial transactions with them.”
8. In addition, the following terms shall be defined in accordance with the HKEX Sanctions Guidance:⁴
- “Primary Sanctioned Activity” means any activity in a Sanctioned Country or (1) with; or (2) directly or indirectly benefiting, or involving the property or interests

² This definition conforms to the definition of “U.S. Person” for purposes of the U.S. Export Administration Regulations appearing in 15 CFR § 772.1.

³ HKEX Sanctions Guidance, para. 1.1.

⁴ HKEX Sanctions Guidance, para. 3.1.

in property of, a Sanctioned Target by a listing applicant incorporated or located in a Relevant Jurisdiction or which otherwise has a nexus with such jurisdiction with respect to the relevant activity, such that it is subject to the relevant sanctions law or regulation.

- “Relevant Jurisdiction” means any jurisdiction that is relevant to the listing applicant and has sanctions related law or regulation restricting, among other things, its nationals and/or entities which are incorporated or located in that jurisdiction from directly or indirectly making assets or services available to or otherwise dealing in assets of certain countries, governments, persons, or entities targeted by such law or regulation.
- “Relevant Persons” means a listing applicant, together with its investors and shareholders and persons who might, directly or indirectly, be involved in permitting the listing, trading, clearing and settlement of its shares, including the Exchange and related group companies.
- “Sanctioned Activity” means Primary Sanctioned Activity and Secondary Sanctionable Activity.
- “Sanctioned Country” means any country or territory subject to a general and comprehensive export, import, financial or investment embargo under sanctions related law or regulation of the Relevant Jurisdiction.
- “Sanctioned Target” means any person or entity: (1) designated on any list of targeted persons or entities issued under the sanctions-related law or regulation of a Relevant Jurisdiction; (2) that is, or is owned or controlled by, a government of a Sanctioned Country; or (3) that is the target of sanctions under the law or regulation of a Relevant Jurisdiction because of a relationship of ownership, control, or agency with a person or entity described in (1) or (2).
- “Sanctioned Trader” means any person or entity that does a material portion (10% or more) of its business with Sanctioned Targets and Sanctioned Country entities or persons.
- “Secondary Sanctionable Activity” means certain activity by a listing applicant that may result in the imposition of sanctions against the Relevant Person(s) by a Relevant Jurisdiction (including designation as a Sanctioned Target or the imposition of penalties), even though the listing applicant is not incorporated or located in that Relevant Jurisdiction and does not otherwise have any nexus with that Relevant Jurisdiction.

III Executive Summary

9. The HKEX Sanctions Guidance⁵ provides that an applicant is unlikely to be suitable for listing if “(a) any sanctions risks to or sanctions imposed on the applicant materially undermine its ability to continue its operations; (b) an applicant states that the funds are raised to finance Sanctioned Activities; or (c) its listing would cause a significant risk to the Relevant Persons or reputational risk to the Exchange.”

⁵ See HKEX Sanctions Guidance, Para. 3.8.

10. The HKEX Sanctions Guidance identifies three categories of risks related to International Sanctions to be assessed when evaluating a listing applicant’s suitability for listing:
 - The risk that the “listing applicant has engaged in Primary Sanctioned Activity”;
 - The risk that the “listing applicant has engaged in Secondary Sanctionable Activity”;
and
 - The risk that the listing applicant “is a Sanctioned Target, located, incorporated, organised, or resident in a Sanctioned Country, or a Sanctioned Trader.”⁶
11. Based on the factual representations by the Company, and subject to the assumptions, qualifications, and limitations set forth in Section X and elsewhere herein, we have reached the following conclusions.
12. The U.S. may be considered a potentially Relevant Jurisdiction with respect to certain of the Company’s commercial activities.
13. The Company’s commercial activities during the TRP did not include Primary Sanctioned Activities under the laws of any Relevant Jurisdiction.

(A) Relevant Jurisdictions

14. Given the nature and geographic scope of the Company’s commercial activities, for the purposes of the HKEX Sanctions Guidance, potentially Relevant Jurisdictions include the U.S. (with respect to certain of the Company’s commercial activities in China potentially subject to the U.S. extraterritorial jurisdiction).
15. Designation of U.K. law as the governing law of the Company’s contract with its Turkish Customer involving the end-user in Russia is not sufficient to bring the Company’s sales of Chinese-origin products within the ambit of UK sanctions without any other UK nexus.
16. The E.U., U.K. and Australia do not qualify as Relevant Jurisdictions.

(B) Three Risk Categories

(1) Primary Sanctioned Activity Risks

17. Although the Company conducted business with certain entities that may qualify as Sanctioned Targets during the TRP, such business relationships do not satisfy the jurisdictional and/or substantive elements of a violation or infringement under the relevant International Sanctions.

(2) Secondary Sanctionable Activities Risks

18. Under current U.S. law and practice, “Secondary Sanctionable Activity” involves material support for SDNs or significant involvement with specific regions or sectors in Sanctioned Countries.

⁶ See HKEX Sanctions Guidance, Para. 3.2.

19. Although the Company's commercial activities during the TRP did include certain transactions that might potentially qualify as Secondary Sanctionable Activities under U.S. law, the risks that such conduct might result in the imposition of significant penalties are low and may be further mitigated by additional remedial measures.
20. Specifically, the Company's commercial activities during the TRP included the completion of transactions entered into before the TRP involving sales within China of products to unaffiliated Chinese customers that were subsequently resold to Sanctioned Persons in Iran ("Indirect Iran Sales"), transactions entered into and completed during the TRP involving a single sale made to an end customer in Russia through a Turkish intermediary ("Indirect Russia Sales"), and direct transactions with customers operating in sectors of the Russian economy subject to U.S. sanctions.
21. Under U.S. law, the Indirect Iran Sales and sales to customers in Russia, both direct and indirect, might potentially qualify as Secondary Sanctionable Activities. In light of relevant published enforcement precedent and regulatory guidance, the risks that the Company might become subject to Secondary Sanctions under U.S. law based on the Indirect Iran Sales alone and sales to customers in Russia, both direct and indirect, alone are relatively low, but cannot be excluded. According to the Company, the Company will not conduct any sales, indirectly or indirectly, to customers subject to International Sanctions or customers located in any Sanctioned Countries.

(3) Sanctioned Target, Sanctioned Country, and Sanctioned Trader Risks

22. The Company is not a Sanctioned Target under the International Sanctions enacted by the Relevant Jurisdictions.
23. The Company is not located, incorporated, organized or resident in a Sanctioned Country.
24. Based on the definition of "Sanctioned Trader" set forth in the HKEX Sanctions Guidance and the Company's sales activities for the entire TRP, the Company would not qualify as a Sanctioned Trader (assuming that the test is applied to the entire TRP).
25. To mitigate the inherent sanctions risks of international sales of products related to the petroleum and petrochemical industries, we recommend the Company undertake certain remedial measures and commitments regarding the use of proceeds from the Offering and future activities involving Sanctioned Countries, Sanctioned Persons, and jurisdictions involving heightened sanctions risks. See Section IX(D).

(C) Suitability for Listing

26. The Company is not rendered unsuitable for listing under the conditions articulated in paragraph 3.8 of the HKEX Sanctions Guidance.
27. Specifically, the Company's past business with CMIC Customers, and the Indirect Iran Sales and sales to customers in Russia, direct and indirect, would not "materially undermine its ability to continue its operations" or "cause a significant risk to the Relevant Persons or reputational risk to the Exchange" for purposes of the HKEX Sanctions Guidance.
28. Risks to the Company may be further reduced by the adoption and implementation of a comprehensive trade compliance program, including the screening of all customers, suppliers, and agents (including all settlement agents and payors relevant to the Company's business)

against the International Sanctions of Relevant Jurisdictions, and prospective undertakings regarding the use of the proceeds of the listing.

29. Pursuant to the implementation of such prospective undertakings, (1) the Company would not be subject to the conditions articulated in paragraph 3.8 of the HKEX Sanctions Guidance that may render a listing applicant unsuitable for listing; and (2) the risk from exposure to International Sanctions currently in force to the Company, its investors and shareholders, and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of the Company's shares (including the Stock Exchange, its listing committee and related group companies) as a result of such involvement is low (but cannot be excluded).

(D) Voluntary Self Disclosure (VSD)

30. The VSD process is an enforcement mechanism structured to resolve “apparent violations” of U.S. primary sanctions, not a policy advocacy mechanism for mitigating the risks of “Secondary Sanctionable Activity.”
31. The HKEX Guidance defines “Secondary Sanctionable Activity” as certain activity by a listing applicant that may result in the imposition of sanctions against the Relevant Person(s) by a Relevant Jurisdiction (including designation as a Sanctioned Target or the imposition of penalties), even though the listing applicant is not incorporated or located in that Relevant Jurisdiction and does not otherwise have any nexus with that Relevant Jurisdiction.
32. Under current U.S. law and practice, “Secondary Sanctionable Activity” involves material support for SDNs or significant involvement with specific regions or sectors in Sanctioned Countries.
33. We identified risks that “the Company’s commercial activities during the TRP did include certain transactions that might potentially qualify as Secondary Sanctionable Activities under U.S. law,” but the risks that such conduct might result in the imposition of significant penalties are low and may be further mitigated by additional remedial measures.
34. Such conduct would not, however, entail an “apparent violation” of U.S. sanctions for purposes of the VSD procedures of the OFAC Enforcement Guidelines.
35. It is essential to distinguish apparent violations (conduct that potentially violates an order, regulation, or other measure imposing sanctions) from sanctionable conduct (conduct contrary to US interests that may result in the imposition of sanctions). U.S. authorities similarly distinguish their enforcement authority (the power to investigate apparent violations and impose penalties through civil or criminal enforcement) and their sanctioning authority (the power to issue determinations imposing sanctions on targets).
36. The VSD procedure is structured to resolve “apparent violations”. However, the Indirect Iran Sales, Indirect Russian Sales and Direct Russian Sales, each as described below are Secondary Sanctionable Activities, and Secondary Sanctionable Activities are not “apparent violations” of existing sanctions measures for purposes of the VSD. Therefore, the businesses engaged in such conduct would not be expected to submit a VSD.

IV Statement of Facts

37. **This section summarizes the relevant factual representations made by the Company upon which the observations, analysis, and conclusions of DLA Piper set forth elsewhere in this Memorandum rely.**

38. The Company's factual representations include:
- written and verbal responses on behalf of the Company to requests for information;
 - documents and records maintained in the normal course of business, as provided by the Company; and
 - data provided by the Company summarizing such records.
39. The Company has expressly confirmed that the following statements of facts are accurate, complete, and not misleading.
40. However, these statements have not been independently or directly verified or confirmed by DLA Piper. Please refer to Section X for important qualifications and limitations applicable to the entirety of this Memorandum.

(A) Overview

41. **This subsection summarizes the Company's general factual representations regarding its ownership, organization, products and operations.**
- (1) Company Organization and Ownership**
42. Ruichang International Holdings Limited was incorporated in the Cayman Islands on February 6, 2020, as an exempted company with limited liability. The Company's main business focuses on the manufacture and sale of petroleum refinery and petrochemical equipment.

43. The Company's current shareholding structure is as follows:

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44. Mr. Lu Bo (together with Riches Development, One Ideal Limited and Now Wealth Limited) and Ms. Lu Xiaojing (together with Richen Development, Lady Jing Limited and LXJ Limited) are the Company's controlling shareholders.
45. No entities organized in the U.S., Australia, the U.K., or any E.U. member states, or individuals who are citizens or residents of the U.S., Australia, the U.K., or any E.U. member states, currently directly or indirectly own or control the Company.
46. The Company conducts its principal businesses through its wholly owned subsidiaries in China:
- Luoyang Ruichang is responsible for designing, manufacturing, and selling petroleum refinery and petro-chemical equipment; and
 - Shanghai Ruiqieer is responsible for the design, R&D and sales of petroleum refinery and petro-chemical equipment.
47. The Company established a representative office in Toronto, Canada, and undertook some marketing activities with potential customers in Canada.
48. In March 2021, the Company acquired 22.5% equity interest in *HS Engenharia e Supervisao Ltda*, a company incorporated in Brazil.

49. The Company has a wholly owned subsidiary, *Flame Petro-chemical Engineering International Limited*, incorporated in Samoa, which is a holding company without any sales or commercial operations.
50. No officer, director, or employee of the Company or any of the Company's subsidiaries or offices in China, Canada, Brazil, or Samoa are citizens or permanent residents of the U.S., the U.K. (including U.K. Overseas Territories), Australia, or any E.U. member state.

(2) Business Model

51. The Company currently has four product lines namely: (1) SRU and VOCs incineration equipment; (2) catalytic cracking equipment; (3) process burners; and (4) heat exchangers.
52. To offer equipment tailored to specific requirements, the Company generally provides one-stop services to its customers which include: (1) formulating and finalizing blueprints of specialized equipment based on customers' requirements; (2) designing and manufacturing of specialized equipment; (3) testing; and (4) providing after-sale services.

(3) Domestic Commercial Activities

53. During the TRP, all sales of goods and services to Chinese entities (including Chinese entities owned or controlled by foreign entities and third-party resellers) were denominated in RMB and paid for in RMB; no domestic sales were made using U.S. dollars or any other foreign currency.

(4) Customers Outside China

54. During the TRP, the Company made sales to customers located outside of China and Hong Kong S.A.R. These sales include both direct export sales for delivery outside of China and domestic sales to Chinese customers delivered inside China for subsequent export and export sales.
55. The Company did not, during the TRP, have, and does not currently have, any subsidiaries, representatives, or sales or marketing activities located in the U.S., Australia, the U.K., or any E.U. member states.
56. Company personnel did not, during the TRP, and do not currently, conduct sales, marketing, or other activities on behalf of the Company while present in the territory of the U.S., Australia, the U.K., or any E.U. member states.
57. The Company confirmed that it had no knowledge or reason to suspect that any transactions conducted during the TRP involved third party payors which remitted or received payment on behalf of vendors, customers, or other counterparties.

(5) Procurement Activities

58. The Company generally procures products, software, and/or technologies from suppliers within China.
59. During the TRP, all purchases of materials, components, software, technology, or services were denominated in RMB and paid for in RMB.

(6) Use of U.S.-Related Items

60. Since 2013, the Company has paid quarterly royalty payments to a subsidiary of a U.S. corporate group for the licensing of certain production technology (the “Licensed U.S. Technology.”).
61. With the exception of the Licensed U.S. Technology, the Company stated that it does not procure or resell any other products, software, and/or technologies that are either (1) from the U.S.; (2) of U.S. origin; or (3) otherwise subject to the U.S. Export Administration Regulations (“EAR”).⁵

(7) Export Activities

62. In October 2021, February 2022, November 2022, February 2023, August 2023, and February 2024 the Company provided a total of six Excel spreadsheets (together, the “Customer List”) providing the identity and addresses for all customers during the TRP.
63. The Company has confirmed that the Customer List is accurate, complete, and not misleading.
64. The Customer List includes entries for 452 distinct customers during the TRP. The locations of these customers based on the business address supplied in the Customer List and the transaction currencies are as follows:

Location of Business Address	Number of entries	Transaction Currencies
China	442	RMB
Taiwan	1	RMB/USD
Russia	3	RMB/USD
Brazil	2	USD
Brunei	1	RMB
United Arab Emirates	1	USD
Malaysia	1	RMB
Turkey	1	RMB
Total	452	RMB/USD

65. Most of the Company’s business involves sales that result in deliveries to customers within China. The Company has stated that none of its sales transactions in China during the TRP were denominated in the currencies of the U.S., U.K., Australia, or any E.U. Member States.
66. The Company has stated that it did not obtain, repay, or utilize any loans, trade finance, or other financial services from any financial institution established within or under the laws of the U.K., Australia, or any E.U. Member States, including foreign branches of such financial institutions.

⁵ 15 C.F.R. § 730 *et seq.*

67. The Company has stated that (1) it has no business operations in any countries or regions subject to comprehensive sanctions administered by OFAC; (2) it does not have any business relationship with any third party in the above-referenced countries or regions; and (3) it does not have any business relationship with any parties on any OFAC sanctions lists, including the SDN List.

(B) Specific Transactions and Relationships

68. **This subsection summarizes the Company’s factual representations regarding specific transactions and relationships that may potentially implicate International Sanctions risks.**
69. Please refer to Section VI and Section VII for our analysis of the risks of Primary Sanctioned Activity or Secondary Sanctionable Activity arising from such transactions and relationships.

(1) Specific Customers

(a) CMIC Affiliates

70. Multiple customers (the “CMIC Affiliates”) are affiliates or subsidiaries of Chinese entities that have been designated as CMICs.
71. At least nine domestic customer entities have “中海油” (China National Offshore Oil Corporation, CNOOC) in their entity names. They are:

海洋石油富岛有限公司	CNOOC Fudao Ltd.
中海壳牌石油化工有限公司	CNOOC and Shell Petrochemical Co., Ltd.
中海油东方石化有限责任公司	CNOOC Dongfang Petrochemical Co., Ltd.
中海石油宁波大榭石化有限公司	CNOOC Ningbo Daxie Petrochemical Co., Ltd.
中海石油舟山石化有限公司	CNOOC Zhoushan Petrochemical Co., Ltd.
中海油惠州石化有限公司	CNOOC Huizhou Petrochemical Co., Ltd.
中海沥青（营口）有限责任公司	CNOOC Bitumen (Yingkou) Co., Ltd
中海油气（泰州）石化有限公司	CNOOC Gas (Taizhou) Petrochemical Co., Ltd
中海（东营）石化有限公司	CNOOC (Dongying) Petrochemical Co., Ltd

72. An online company registration information database shows that as of March 8, 2024, four of the nine CNOOC entities, (1) CNOOC and Shell Petrochemical Co., Ltd., (2) CNOOC Bitumen (Yingkou) Co., Ltd, (3) CNOOC Gas (Taizhou) Petrochemical Co., Ltd and (4) CNOOC (Dongying) Petrochemical Co., Ltd, are indirectly less than 50% owned/controlled by CNOOC.
73. An online company registration information database shows that as of March 8, 2024, the remaining five CNOOC Companies are indirectly 50% or more owned/controlled by CNOOC.
74. The Customer List includes other two customers that appear to be affiliated to CMICs. They are:

北方华锦化学工业股份有限公司	North Huajin Chemical Industries Co., Ltd.
上海振华重工(集团)股份有限公司	Shanghai Zhenhua Heavy Industries Co., Ltd.

75. North Huajin Chemical Industries Co., Ltd. is an affiliate of China North Industries Group Co. Ltd., which is designated as a CMIC entity, by virtue of the latter's indirect ownership in North Huajin Chemical Industries Co., Ltd. via an intermediate affiliate, China Zhenhua Oil Company.
76. China Zhenhua Oil Company Limited holds 9.2% shares of North Huajin Chemical Industries Co., and China North Industries Group Co. Ltd. holds 98% shares of China Zhenhua Oil Company Limited.
77. Shanghai Zhenhua Heavy Industries Co., Ltd. is a subsidiary of China Communications Construction Group Co., Ltd, which holds approximately 12% interest. China Communications Construction Group Co., Ltd is designated as a CMIC entity.

(b) Eleven Xinjiang Customers

78. The Customer List includes eleven customers that appear to be located in Xinjiang Uighur Autonomous Region (“XUAR”). They are:

新疆天利石化股份有限公司（曾用名：克拉玛依市天利恒华石化有限公司）	Xinjiang Tianli Petrochemical Co., Ltd.
中国石油化工股份有限公司西北油田分公司	Sinopec Group Northwest Petroleum Branch
中油（新疆）石油工程有限公司	Xinjiang Petroleum Engineering Co., Ltd.
新疆心连心能源化工有限公司	Xinjiang Xinlianxin Energy Chemical Co., Ltd.
新疆鑫诚万通石油化工有限公司	Xinjiang Xincheng Wantong Petrochemical Co., Ltd.
国能新疆化工有限公司	Guoneng Xinjiang Chemical Co., Ltd.
新疆中能万源化工有限公司	Xinjiang Zhongneng Wanyuan Chemical Co., Ltd
新疆天运化工有限公司	Xinjiang Tianyun Chemical Co., Ltd
中石油克拉玛依石化有限责任公司	China National Petroleum Corporation Karamay Petrochemical Co., Ltd
中国石化塔河炼化有限责任公司	Sinopec Tahe Petrochemical Co., Ltd
中国石油天然气股份有限公司独山子石化分公司	China National Petroleum Co., Ltd., Dushanzi Petrochemical Branch

(c) Russian Customer: Aliter Axi Co., Ltd.

79. During the TRP, the Company transacted with a customer by the name of “Aliter-Axi Co., Ltd.” (“AXI”) which is an entity registered and located in Russia, (圣彼得堡阿里特尔-阿克西石化设计公司). The transactions involve sales of certain products, which the Company delivered directly to Novgorodskaya Street 16, lit.A 191144, St. Petersburg, Russian Federation, as designated by AXI.
80. Revenues from sales to AXI amounted to approximately RMB 6,836,640 in 2021 (2.76% of the total revenues), RMB 239,924.00 in 2022 (0.06% of the total revenues), RMB 609,000 in 2023 (0.11% of the total revenues).
81. AXI had placed nine contracts with Ruichang during the TRP. The latest contract was placed on November 15, 2023, but Ruichang has yet to deliver the product.
82. According to the Company:
- The first four transactions were settled in U.S. dollars.
 - The Company engaged China Construction Bank to convert U.S. dollars into RMB.
 - The remaining five transactions were made in RMB.
 - Other than the use of U.S. dollars, these transactions with AXI had no other connection to the U.S. (such as the involvement of U.S. persons, U.S.-origin goods, or and U.S.-origin software.)

(d) Russian Customer: Safe Technologies Inc.

83. During the TRP, the Company transacted with a customer by the name of “Safe Technologies Inc.” (“Safe Technologies”) which is an entity registered and located in Russia.
84. The following table summarizes the TRP sales to Safe Technologies.

Ref	Russia Customer	Products	Value (RMB)	Date of Contract	Date of Export	Delivery Venue and Consignee
1	Safe Technologies	Low NOx burner	9,700	January 16, 2023	April 2, 2023	Customer self-delivered goods
Total Value (stated in the Contract)					RMB 9,700	

85. The contract was priced in RMB.
86. Revenues from sales to the Safe Technologies amounted to approximately RMB 9,700 (less than 0.01 % of the total revenues).
87. The payment of RMB 9,700 was received in RMB on January 24, 2023.

(e) **Russian Customer: Venteco LLC**

88. During the TRP, the Company transacted with a customer by the name of “Venteco LLC” which is an entity registered and located in Russia.

89. The following table summarizes the TRP sales to Venteco LLC.

Ref	Russia Customer	Products	Value (RMB)	Date of Contract	Date of Export	Delivery Venue and Consignee
1	Venteco LLC	Burner	294,400	June 5, 2023	October 8, 2023	Customer self-delivered goods
Total Value (stated in the Contract)						RMB 294,400

90. The contract was priced in RMB.

91. Revenues from sales to Venteco LLC amounted to RMB 294,400 (less than 0.3 % of the total revenues for 2023).

92. Payment was made by two equal installments of each RMB 147,200 on June 30, 2023 and August 30, 2023.

(2) **Specific Suppliers**

(a) **Russian Supplier**

93. The Company has stated that during the TRP, the Company made purchases of refractory from a supplier in Russia named NPP PROMA LTD (“Russian Supplier”) valued at approximately RMB 966,606 in 2021 (0.51% of the total purchase), RMB 539,298.27 in 2022 (0.22% of the total purchase), and RMB 196,750 in 2023(0.06% of the total purchase).

(3) **Specific Sales**

(a) **Indirect Iran Sales**

94. The Indirect Iran Sales comprise four transactions entered in 2018 and 2019 (prior to the TRP) involving sales of equipment to unaffiliated resellers of products that were ultimately delivered to Iran. During the TRP, the Company completed performance and received payments from the Indirect Iran Sales.

95. Specifically, the Company through its subsidiary Luoyang Ruichang entered into four transactions with the following three customers (“Chinese Resellers”): (1) Sinopec Engineering & Construction Co. LTD (中国石化工程建设有限公司, “SEI”); (2) Maoming Gravity Petrochemical Equipment Co., Ltd., or Maoming Zhongli Shihua Zhuangbei Gufen Gongsi (茂名重力石化装备股份公司, “Maoming Zhongli”); and (3) Shanghai SupeZET Engineering Technology Co., Ltd. or Shanghai Zhuoran Gongcheng Jishu Gufen Youxian Gongsi (上海卓然工程技术股份有限公司, “Shanghai SupeZET”).

96. Commercial documents for the Indirect Iran Sales refer to the “Abadan Refinery Upgrading Project” and the “National Iranian Oil Engineering & Construction Company” (“NIOEC”), and the NIOEC logo is shown at the document header.
97. According to the Company:
- SEI is a Chinese company.
 - In two of the four Indirect Iran Sales, the Company signed sales contracts (purchase orders) directly with SEI and delivered products to SEI.
 - For the other two Indirect Iran Sales, the Company sold and delivered products to Shanghai SupeZet and Maoming Zhongli, which in turn provided the products to SEI.
 - During the sales process, the Company was aware that it was supplying products for SEI, and that SEI would use the products in a project in Abadan, Iran.
 - However, the Company did not have any direct interactions with any of the Iranian entities to which the Company’s products were ultimately transferred (“Iranian End-Users”).
 - No U.S. bank was involved in the shipment and invoice flow, and no aspects of the transactions were invoiced or settled in U.S. dollars.
 - The Company manufactured the products to the SEI specifications and delivered the products to the Chinese Resellers at Chinese ports.
98. The Company contracted directly with the Chinese Resellers; the Company did not contract with the Iranian End-Users.
99. After inspections were conducted by technical inspectors engaged by the Chinese Resellers, all the subsequent matters were handled by Chinese Resellers without involvement of the Company.
100. Specifically, the Company stated that no U.S. products or technology were used in producing the products supplied in the Indirect Iran Sales.
101. Although the Company entered into the transactions prior to TRP and the revenues from the Indirect Iran Sales were recognized prior to the TRP, the Company received payments for the Indirect Iran Sales during the TRP.

(b) Other Indirect Sales Activities

102. The Company has indicated that it made additional sales during the TRP to intermediary resellers, including the Chinese Resellers, for which it does not know the identity of the ultimate customers or ultimate destinations.

(c) Indirect Russia Sales

103. On April 12, 2023, we were informed that the Company entered into a contract with a Turkish company named KRONOS İTHALAT İHRACAT DIŞ TİCARET ANONİM ŞİRKETİ (“KRONOS” or “Turkish Customer”) dated November 4, 2022.

104. On February 21, 2024, we were informed that the Company discovered that the products involved in the Indirect Russia Sales were destined for Amur Gas Chemical Complex LLC (“AGCC”), an end-user located in Russia, by noting that the products were shipped to a Russian port.

105. Specifically, the Company through its subsidiary Luoyang Ruichang entered into a single transaction with the Turkish Customer in 2022 involving sales of equipment that were ultimately delivered to AGCC. During the TRP, the Company entered into, completed performance, and received payment from the Indirect Russia Sales.

106. The following table summarizes the Indirect Russia Sales.

Ref	Customer	Products	Value (RMB)	Contract Date	Date of Cargo Receipt	Delivery Venue and Consignee
1	AGCC	Floor burners, Pilot burners incl. ignition electrodes, Sidewall burners, Jackshaft system for 4 floor burners. Sidewall burner tiles, various commissioning spare parts, and various capital spare parts	62,523,300	November 4, 2022	November 5, 2023	Customer self-delivered goods

107. According to the Company:

- AGCC is a Russian joint venture between Sibur holding 60% interest and Sinopec holding 40% interest for production of polymers such as polyethylene and polypropylene.⁷
- AGCC’s is expected to launch in mid-2024, and its production facilities are expected to be up to 2.7 million tons of polymers per year.
- During the sales process, the Company had direct interactions with AGCC.
- The Company was aware that it was supplying products for AGCC and that AGCC would use the products in a project of AGCC in Russia.
- No U.S. bank was involved in the shipment and invoice flow, and no aspects of the transactions were invoiced or settled in U.S. dollars.

⁷ According to publicly available information, Sibur is a petrochemicals company in Russia, headquartered in Moscow, and Sinopec is China Petroleum & Chemical Corporation, a Chinese oil and gas enterprise based in Beijing.

- The Company manufactured the products to AGCC’s specifications and delivered the products to KRONOS at the premises of Luoyang Ruichang.
108. The Company contracted directly with KRONOS; the Company did not contract with AGCC.
109. Specifically, the Company stated that no U.S. products or technology were used in producing the products supplied in the Indirect Russia Sales.
110. According to the Company, RMB 62,455,870 in revenues (excluding Value-added tax) from the Indirect Russia Sales were recognized in 2023 amounting to approximately 11.48% of the Company’s 2023 revenues.⁸ An initial payment of 43,766,310 was received on November 14, 2022, and the remaining balance of 18,689,560 was received on October 16, 2023.

V Relevant Jurisdictions

111. This section considers the likelihood that the U.S., U.K., E.U., and Australia may qualify as Relevant Jurisdictions with respect to the Company’s operations.
112. Under the HKEX Sanctions Guidance, issuers are required to evaluate International Sanctions risks by reference to the sanctions laws of “Relevant Jurisdictions” which are defined both as being (1) “relevant to the listing applicant”; and (2) having enacted potentially applicable International Sanctions.

(A) E.U.

113. Under E.U. practice, each jurisdiction-specific sanctions regime (e.g., Russia, Iran) is imposed via a separate E.U. Regulation.
114. E.U. sanctions generally apply: “within the territory of the E.U., including its airspace; on board any aircraft or vessel within the jurisdiction of a Member State; to any person inside or outside the territory of the E.U. who is a national of a Member State; to any legal person, entity, or body, inside or outside the territory of the E.U., which is incorporated or organized under the law of a Member State; or to any legal person, entity, or body in respect of any business done in whole or in part within the E.U.”⁹
115. Under current law and practice, the E.U. does not adopt and implement secondary sanctions.
116. As noted in the Statement of Facts, according to the Company, the Company’s commercial activities do not include any contacts with the E.U.
117. Based on the Company’s representations regarding the Company’s ownership, sales, procurement, and financing activities, and location of operations, the Company’s conduct in manufacturing products in China and exporting products directly from China without any connection to the E.U. would not satisfy the jurisdictional elements of a violation of E.U. primary sanctions measures.
118. Accordingly, the E.U. would not qualify as a Relevant Jurisdiction with respect to the Company’s operations.

⁸ The difference between the contract price and the revenues resulted from a discount provided due to damaged packaging.

⁹ Council Guidelines on implementation and evaluation of restrictive measures (sanctions) in the framework of the E.U. Common Foreign and Security Policy [2018] Doc. 15598/17 para. 88.

(B) U.K.

119. In respect of the U.K., the Sanctions and Anti-Money Laundering Act of 2018 provides the legislative framework for U.K. sanctions. Separate secondary / delegated legislative instruments implement jurisdiction-specific sanctions regimes (e.g., Russia, Iran).
120. U.K. sanctions measures apply to: “all persons within the territory and territorial sea of the UK and to all UK persons, wherever they are in the world.” Therefore, (1) “[all] individuals and legal entities who are within or undertake activities within the UK’s territory must comply with UK financial sanctions that are in force”, and (2) “[all] UK nationals and legal entities established under UK law, including their branches, must also comply with UK financial sanctions that are in force, irrespective of where their activities take place.”
121. As noted in the Statement of Facts, according to the Company, the Company’s commercial activities do not include any contacts with the U.K.
122. Based on the Company’s representations regarding the Company’s ownership, sales, procurement, and financing activities, and location of operations, the Company’s conduct in manufacturing products in China and exporting products directly from China without any connection to the U.K. would not satisfy the jurisdictional elements of a violation of U.K. primary sanctions measures.
123. According to the Company, its contracts with the Turkish customer and Russian end-user designated U.K. law as the governing law, but entailed no other direct or indirect connections with any U.K. person or entity or any activities in the U.K. Designation of U.K. law as the governing law of a contract alone is not sufficient to bring the Company’s sales of Chinese-origin products within the ambit of UK sanctions without any other UK nexus.
124. Accordingly, the U.K. would not qualify as a Relevant Jurisdiction with respect to the Company’s operations.

(C) Australia

125. Australian sanctions laws apply to activities in Australia and to activities undertaken overseas by Australian citizens and Australian-registered bodies corporate. In this regard, Australian sanctions law has extraterritorial effect.
126. Accordingly, Australian sanctions apply:¹⁰ (1) within the territory of Australia (which includes the Australian external Territories); (2) where the conduct¹¹ or a result of the conduct¹² occurs on board or in connection with the use of any Australian aircraft or vessel;

¹⁰ Pursuant to Section 16 of the *Autonomous Sanctions Act 2011* (Cth) (the Act), an individual or a body corporate commits an offence if they engage in conduct that contravenes a sanction law or condition of authorisation (i.e., a licence or approval) under a sanction law. Part 3 of the *Autonomous Sanctions Regulations 2011* (Cth) (Regulations) contain the sanctions laws. Section 15.1 of the Criminal Code (contained in the Schedule to the *Criminal Code Act 1995* (Cth)) applies to an offence under Section 16 of the Act that relates to a contravention of Regulations 12, 12A, 13A, 14, 15 and 16. The effect of Section 15.1 is to give the offence extraterritorial operation: see Regulations 12(2), 13(2), 14(2), 15(2) and 16(2). Pursuant to Section 15.1 of the Criminal Code, a person may be guilty of committing an offence where they satisfy the requisite territorial or extraterritorial qualification i.e., where their conduct is committed outside Australia, but they are a citizen (Section 15.1(c)(i)).

¹¹ Section 15.1 (a)(ii) of the Criminal Code: conduct may be an offence where it occurs wholly or partly on board an Australian aircraft or ship. Regulation 12(3): a person will have engaged in a sanctioned supply where they use an Australian ship or aircraft to transport export sanctioned goods in the course of, or for the purpose of making, a sanctioned supply that is not an authorised supply.

¹² Section 15.1 (b)(ii) of the Criminal Code: conduct may be an offence where the conduct is performed wholly outside Australia and the result of the conduct occurs wholly or partly on board an Australian aircraft or ship.

(3) to any person inside¹³ or outside the territory of Australia¹⁴ who is an Australian citizen; and (4) to any legal person, entity or a body corporate inside¹⁵ or outside the territory of Australia which is incorporated by or under a law of the Commonwealth or of a State or Territory.¹⁶

127. Based on the Company's representations regarding the Company's ownership, sales, procurement, and financing activities, and location of operations, the Company's conduct in manufacturing products in China and exporting products directly from China without any connection to Australia would not satisfy the jurisdictional elements of offenses under national sanctions measures adopted by Australia.

128. Accordingly, Australia would not qualify as a Relevant Jurisdiction with respect to the Company's operations.

(D) U.S.

129. As explained in Sections VI and VII, certain International Sanctions measures enacted by the U.S. may apply extraterritorially based on limited or no contacts with the U.S.

130. Based on the risks arising under U.S. sanctions and export controls despite the Company's limited contacts with the U.S., it is possible that the U.S. might be considered as a Relevant Jurisdiction with respect to certain activities of the Company.

VI Risks of Primary Sanctioned Activities

131. **This section addresses the risks that the Company's activities during the TRP might include Primary Sanctioned Activities under the International Sanctions measures enacted by Relevant Jurisdictions.**

132. Each subsection below addresses the International Sanctions measures enacted or administered by various authorities.

(A) U.S. Economic Sanctions Administered by OFAC

133. This subsection addresses the Company's exposure to U.S. sanctions measures administered by OFAC, which may constitute International Sanctions for the purposes of the HKEX Sanctions Guidance.

(1) Framework

(a) Overview of OFAC Economic Sanctions

134. U.S. economic sanctions are foreign policy measures intended to influence the conduct or capabilities of foreign governments, individuals, businesses, and non-state actors ("targets") by restricting their international commercial and financial activities.

135. The U.S. sanctions policy is principally determined by the executive branch of the U.S. federal government under the direction of the President of the United States. The Office of

¹³ Section 15.1(a)(i) of the Criminal Code.

¹⁴ Section 15.1(c)(i) of the Criminal Code.

¹⁵ Section 15.1(a)(i) of the Criminal Code.

¹⁶ Section 15.1(c)(ii) of the Criminal Code.

Foreign Assets Control (“OFAC”) within the Treasury Department has primary responsibility for administering and enforcing U.S. economic sanctions.¹⁷

136. The legislative authority for U.S. economic sanctions derives from statutes adopted by the U.S. Congress authorizing (or mandating) the imposition of sanctions by the executive branch.
137. The International Emergency Economic Powers Act (“IEEPA”) is the primary legal authority for virtually all existing OFAC sanctions.¹⁸ The President has broad authority under IEEPA to direct OFAC to implement a wide range of economic measures to advance U.S. foreign policy and national security objectives.¹⁹
138. In addition, the U.S. Congress occasionally adopts additional legislation specifically authorizing or mandating the imposition of sanctions.²⁰
139. U.S. sanctions are implemented through Executive Orders issued by the President pursuant to IEEPA or other statutes and directives issued by the Secretary of the Treasury, in consultation with the Secretary of State, and/or designations of individuals and entities on sanctions lists by OFAC. Executive Orders may prescribe detailed measures against specific targets, or delegate implementation to OFAC.
140. U.S. sanctions can change with immediate effect through Executive Orders and amendments to OFAC regulations.

(b) Scope of OFAC Sanctions Programs

141. OFAC sanctions establish prohibitions: (a) of specific categories of activities, (b) involving specific categories of targets, and (c) meeting a required connection to the U.S. (“U.S.-nexus”).²¹ Each of these elements (scope of prohibited conduct, scope of sanctions target, and requisite U.S.-nexus) varies between U.S. sanctions programs.
142. Most OFAC sanctions are primary sanctions prohibiting U.S. persons from engaging in restricted activities involving sanctions targets identified based on their connection to conduct adverse to U.S. interests.
143. OFAC publishes multiple lists of sanctions targets and descriptions of sanctions programs identifying the country, region, or activity on which each sanctions program focuses.
144. Because every sanctions program is unique, such lists essentially provide a first screen for determining if a transaction might involve sanctions risks. Once a counterparty is identified as a possible target, further investigation is still necessary to confirm which restrictions apply to each specific target.

¹⁷ OFAC administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals. *See* OFAC, Dep’t Treas., Programs and Information, *available at*

<https://home.treasury.gov/policy-issues/office-of-foreign-assets-control-sanctions-programs-and-information>.

¹⁸ *See* 50 U.S.C. § 1701 *et seq.* (1977).

¹⁹ *See* 50 U.S.C. § 1702(a).

²⁰ Specific legislation imposing sanctions include the Iran and Libya Sanctions Act, Public Law 104-172, 110 Stat. 1541; 50 U.S.C. § 1701 note (1996), and the Comprehensive Iran Sanctions, Accountability, and Divestment Act, Pub. Law No. 111-195, 124 Stat. 1312, 22 U.S.C. 8501 note (July 1, 2010).

²¹ *See* Basic Information on OFAC and Sanctions, OFAC Frequently Asked Question #1 *available at*, <https://home.treasury.gov/policy-issues/financial-sanctions/faqs/topic/1501>.

(2) Covered Activities: Asset Controls & Transaction Controls

145. OFAC primary sanctions generally involve two types of restrictions: asset controls and transactions controls.
146. Asset controls restrict U.S. persons from freely dealing in property in which a sanctions target has an interest. U.S. persons (including the foreign branches of U.S. persons) must usually freeze such property when it comes into their possession or control.²² Such property will be considered as “blocked.” Under most sanctions programs, blocked property may not be “transferred, paid, exported, withdrawn, or otherwise dealt in” by U.S. persons.²³ U.S. persons are not permitted to simply reject the property or return it to the sanctioned party. Instead, U.S. persons are required to freeze and retain the blocked assets. “Property” is defined very broadly and includes “any property, real, personal, or mixed, tangible or intangible, or interest or interests therein, present, future or contingent.”²⁴ Indirect interests in assets are often sufficient to trigger the application of sanctions.²⁵
147. Transaction controls restrict U.S. persons from freely dealing with sanctioned persons. These restrictions range from a full embargo on all dealings between a U.S. person and a sanctioned country to restrictions on particular types of transactions (e.g., transactions with specific persons or industries, investments, or transfers of sensitive U.S. goods and technology).
148. Exceptions to both asset controls and transaction controls may be authorized by OFAC through licenses.²⁶
149. In some cases, OFAC publishes general licenses authorizing broad categories of activities (e.g., sales of medicine) to sanctions targets. A general license authorizes a particular type of transaction by a particular class of persons that would otherwise be prohibited. If a transaction is authorized by a general license, then it is not necessary for parties to seek specific authorization from OFAC.
150. In other cases, parties may apply to OFAC for specific licenses to engage in specific transactions or courses of dealing with specific sanctions targets that would otherwise be prohibited.²⁷ Specific licenses only authorize the applicants’ participation in the transactions covered by the license.

(3) Scope of OFAC Sanctions Targets

151. Contemporary U.S. sanctions measures may be categorized as comprehensive sanctions, sectoral sanctions, or list-based sanctions.

²² Title to the blocked property remains with the target, but the exercise of powers and privileges normally associated with ownership is prohibited without authorization from OFAC. *See* Basic Information on OFAC and Sanctions, OFAC Frequently Asked Question #11, *available at* <https://home.treasury.gov/policy-issues/financial-sanctions/faqs/topic/1501>.

²³ *See e.g.*, 31 CFR § 560.211 (providing that all property and interests in property of the Government of Iran and any Iranian financial institution including the Central Bank of Iran, that are in the United States, that hereafter come within the United States, or that are or hereafter come within the possession or control of any United States person, including any foreign branch, are blocked and may not be transferred, paid, exported, withdrawn, or otherwise dealt in).

²⁴ *See* 31 C.F.R. §§ 515.311, 560.325 (defining property and property interest to include real, personal, or mixed, tangible or intangible, or interest or interests therein, present, future, or contingent).

²⁵ *See* Basic Information on OFAC and Sanctions, OFAC Frequently Asked Question #1, *available at* <https://home.treasury.gov/policy-issues/financial-sanctions/faqs/topic/1501>.

²⁶ *See* Basic Information on OFAC and Sanctions, OFAC Frequently Asked Question #74, *available at* <https://home.treasury.gov/policy-issues/financial-sanctions/faqs/topic/1506>.

²⁷ OFAC accepts license applications through an online portal, requiring applicants to describe clearly and fully: the nature of the proposed transaction; the specific grounds for believing the transaction may be prohibited; the identifies of all parties involved “directly or tangentially”; and all transactions and “associated money flows” at issue. *See* Basic Information on OFAC and Sanctions, OFAC Frequently Asked Question #74, *available at* <https://home.treasury.gov/policy-issues/financial-sanctions/faqs/topic/1506>.

152. OFAC sanctions programs have generally evolved from “comprehensive” sanctions broadly targeting an entire country to “smart” sanctions such as list-based sanctions.²⁸

(a) Comprehensive Sanctions & Sectoral Sanctions

153. Comprehensive sanctions broadly target countries or regions (“jurisdictions”) and generally prohibit almost all U.S.-nexus transactions with those jurisdictions.
154. Comprehensive sanctions generally prohibit U.S.-nexus transactions that directly or indirectly involve companies organised under the laws of a sanctioned jurisdiction, the governments of sanctioned jurisdictions, persons usually resident in sanctioned jurisdictions, and third-country entities or individuals (including so-called “front companies”) where the benefits of the transaction will flow to a sanctioned jurisdiction.
155. At present, jurisdictions commonly considered to be subject to comprehensive U.S. sanctions include Iran, North Korea, Syria, Cuba, Myanmar, and Venezuela.
156. Sectoral sanctions generally prohibit specified U.S.-nexus dealings with broad categories of persons or entities, without specifically listing the targets. While narrower than comprehensive sanctions programs, in practice they affect broad industries or sectors within a country of concern under U.S. foreign policy. In the Russia/Ukraine sanctions programme, so-called “sectoral sanctions” prohibit certain categories of activity with persons designated on the Sectoral Sanctions Identification (“SSI”) List from certain sectors of the Russian economy (including financial, energy, defence, and oil exploration/production).

(b) List-Based Sanctions

157. List-based blocking sanctions generally prohibit U.S.-nexus transactions with designated persons (individuals, entities, vessels, aircraft, etc.).
158. Most sanctions programs currently include asset and transactions restrictions involving SDNs.
159. SDNs may be designated by OFAC under most sanctions programs. Consequently, different entities and individuals appearing on the consolidated SDN list are subject to different sanctions.
160. If an entity is controlled by an SDN, then OFAC will treat dealings with the controlled entity as dealings with the SDN. Under OFAC’s 50% Rule, if an entity such as a company or partnership comprises 50% or more of the equity, or an entity is owned by one or more parties on the SDN List, that entity is also treated as if it is on the SDN List and subject to blocking and asset freezes, even if it is not itself named on the SDN List.²⁹
161. OFAC maintains a number of sanctions programs, including country-specific programs and programs targeting international narcotics trafficking, proliferation, malicious cyber activity, and other illicit activity.

²⁸ See Remarks of Secretary Lew on the Evolution of Sanctions and Lessons for the Future at the Carnegie Endowment for International Peace (noting that today’s sanctions are informed by financial intelligence, strategically designed, and implemented with our public and private partners to focus pressure on bad actors and create clear incentives to end malign behaviour whereas the old model consisted of a country-wide embargo) (March 30, 2016), available at <https://www.treasury.gov/press-center/press-releases/pages/jl0398.aspx>.

²⁹ See Basic Information on OFAC and Sanctions, OFAC Frequently Asked Question, Entities Owned By Blocked Person (50% Rule), available at <https://home.treasury.gov/policy-issues/financial-sanctions/faqs/topic/1521>.

162. OFAC has authority to designate persons that satisfy a program’s criteria and then add those persons to the SDN List.

163. OFAC also publishes several other sanctions lists.

- Foreign Sanctions Evaders (“FSE”) List: OFAC may designate persons for violating, attempting to violate, conspiring to violate, or causing a violation of U.S. sanctions imposed on Syria or Iran, and such persons are placed on the FSE List.³⁰ This list also includes non-U.S. persons determined by OFAC to have facilitated deceptive transactions for or on behalf of sanctioned persons. U.S.-nexus transactions with persons on the FSE List are generally prohibited, but, unlike the SDN List, there are no blocking requirements.
- SSI List: This list contains entities from four sectors of the Russian economy (financial, energy, defence, and oil exploration/production).³¹ Certain categories of U.S.-nexus dealings with entities on the SSI List are generally prohibited.
- The Correspondent Account or Payable-Through Account Sanctions (“CAPTA”) List: This list contains non-U.S. financial institutions for which the opening or maintaining of a correspondent account or a payable-through account in the United States is prohibited or is subject to one or more strict conditions, pursuant to Russia/Ukraine, North Korea, Iran, and Hizballah-related sanctions.³² The specific sanctions applying to each sanctioned entity are enumerated within the CAPTA List.

(4) U.S. Nexus

164. In principle, the U.S. nexus establishes the factual basis for the assertion of U.S. jurisdiction over the relevant conduct.

165. A transaction can have a U.S. nexus if it involves a U.S. person or certain U.S.-origin products, software, or technology, or if it causes or involves activity within U.S. territory.

166. Significantly, it is also possible for non-U.S. companies and individuals to engage in conduct outside the U.S. that may nevertheless satisfy the U.S. nexus requirement, and thus violate U.S. primary sanctions.

(a) Involvement of U.S. Persons

167. The principle “U.S.-nexus” is the involvement of U.S. persons. U.S. sanctions are generally articulated as prohibitions addressed to U.S. persons from dealings with sanctions targets.

168. “U.S. persons” include U.S. entities and their non-U.S. branches (including non-U.S. branches of U.S. banks); U.S. branches and U.S. subsidiaries of non-U.S. parent

³⁰ OFAC, Dep’t Treas., List of Foreign Sanctions Evaders Sanctioned Pursuant to Executive Order 13608 (May 11, 2021), *available at* <https://www.treasury.gov/ofac/downloads/fse/fselist.pdf>.

³⁰ OFAC, Dep’t Treas., Sectoral Sanctions Identifications List (March 12, 2020), *available at* <https://www.treasury.gov/ofac/downloads/ssi/ssilist.pdf>.

³¹ OFAC, Dep’t Treas., List of Foreign Financial Institutions Subject to Correspondent Account or Payable-Through Account Sanctions (March 14, 2019) *available at* <https://www.treasury.gov/ofac/downloads/capta/captalist.pdf>.

companies; U.S. citizens or permanent residents (“green card” holders) wherever located; and non-U.S. directors, officers, and employees when present in the United States.³³

169. With respect to the Cuba and Iran sanctions programs, non-U.S. entities owned or controlled by United States persons are also considered to be “U.S. persons.”³⁴

170. A non-U.S. company may also face liability for violating U.S. sanctions if its dealings with the principal targets of sanctions involve “hidden” U.S. persons (e.g., green card holders) working for the company.

(b) Conduct in U.S.

171. A non-U.S. company may face direct liability for violating U.S. sanctions if its dealings with sanctions targets involve conduct by its agents or personnel occurring within the United States.

(c) Indirect Nexus: “Causing” Violations

172. A non-U.S. company may also be penalized for “causing” a sanctions violation by a U.S. person or within U.S. territory, even if the non-U.S. company does not directly act within U.S. territory.

173. As explained below, charges against non-U.S. persons for “causing” sanctions violations arise most frequently from: (1) conduct of U.S. dollar-denominated transactions with sanctions targets, or (2) arranging the export or trans-shipment of U.S.-origin products to sanctions targets.

174. There are multiple sources of statutory authority for penalizing the “causing” of separate sanctions violations.

175. Section 1705 of IEEPA provides a statutory basis for action against non-U.S. persons for causing violations for most of the currently existing sanctions programs, as IEEPA is a principal source of authority for these programs.³⁵

176. Similarly, Section 560.203 of the Iranian Transactions and Sanctions Regulations (“ITSR”) prohibits any “transaction [that] causes a violation of ... any of the prohibitions set forth” in the ITSR.³⁶

177. The “Countering America’s Adversaries Through Sanctions Act” (“CAATSA”) formulates the prohibition of “causing” sanctions violations differently.³⁷ Section 228 of CAATSA requires the imposition of sanctions on any “foreign person” that “knowingly” “materially

³³ See Basic Information on OFAC and Sanctions, OFAC Frequently Asked Question, <https://home.treasury.gov/policy-issues/financial-sanctions/faqs/11>.

³⁴ See 50 U.S.C. § 1705. Section 1705 of IEEPA provides that it is unlawful for a person to violate, attempt to violate, conspire to violate, or cause a violation of any license, order, regulation, or prohibition issued under this Chapter. Section 1705C provides that a person who wilfully commits, attempts to commit, conspires to commit, or aids or abets in the commission of an unlawful act described in subsection A shall be fined not more than \$1,000,000, be imprisoned for not more than 20 years, or both).

³⁵ See Remarks of Secretary Lew on the Evolution of Sanctions and Lessons for the Future at the Carnegie Endowment for International Peace (noting that today’s sanctions are informed by financial intelligence, strategically designed, and implemented with our public and private partners to focus pressure on bad actors and create clear incentives to end malign behaviour whereas the old model consisted of a country-wide embargo) (March 30, 2016), available at <https://www.treasury.gov/press-center/press-releases/pages/j10398.aspx>.

³⁶ See 31 C.F.R. § 560.203.

³⁷ Public Law 115-44, 131 Stat. 886, 22 U.S.C. § 9401 (2017).

violates, attempts to violate, conspires to violate, or causes a violation of” any U.S. sanctions on Russia.³⁸

178. The prohibition of “causing a violation” captures scenarios in which a non-U.S. person outside the U.S. engages in a course of conduct with U.S. persons resulting in a violation by a U.S. person.

(d) U.S. Dollar Transactions

179. Conducting U.S.-dollar denominated transactions involving sanctions targets may also violate U.S. sanctions.³⁹
180. International transactions denominated in U.S. dollars are almost always routed through the U.S. financial system. Consequently, the use of U.S. dollars will almost always create a link between the U.S. and the transactions with sanctioned countries or individuals, thus creating a basis for U.S. jurisdiction.
181. Critically, international wire transfers denominated in U.S. dollars almost invariably involve clearance with U.S. financial institutions through their domestic or foreign branches. The U.S. government takes the position that such clearance constitutes conduct within the U.S. for the purposes of U.S. jurisdiction.⁴⁰
182. Consequently, processing any U.S.-dollar denominated transactions in connection with the targets of U.S. sanctions constitutes an export or re-export of financial services from the U.S. to a sanctioned person.
183. As a result, any non-U.S. person arranging or inducing a U.S. financial institution to process such U.S.-dollar denominated transactions may be charged with causing a sanctions violation.

(e) Shipment or Trans-shipment from the U.S.

184. Conduct of non-U.S. persons in ordering products to be shipped or exported from U.S. locations has been treated by OFAC as conduct within the U.S. in certain circumstances.⁴¹

(5) Relevant OFAC Programs and Measures

185. This section summarizes U.S. sanctions measures that are potentially relevant to the Company based on the business addresses and delivery locations identified in the list of customers for the TRP.

³⁸ Public Law 115-44, 131 Stat. 911, 22 U.S.C. § 8909 (2017).

³⁹ Standard Chartered Bank and UniCredit Bank AG, both non-U.S. banks, resolved civil and criminal charges that were brought under a theory of causing liability. See U.S. Dep’t of Justice press release, ‘UniCredit Bank Agrees to Plead Guilty for Illegally Processing Transactions in Violation of Iranian Sanctions,’ (April 15, 2019), available at <http://www.justice.gov/opa/pr/unicredit-bank-ag-agrees-plead-guilty-illegally-processing-transactions-violation-iranian>;

U.S. Dep’t of Justice press release, ‘Standard Chartered Bank Admits to Illegally Processing Transactions in Violation of Iranian Sanctions and Agrees to Pay More than \$1 Billion’ (April 9, 2019), available at <http://www.justice.gov/opa/pr/standard-chartered-bank-admits-illegally-processing-transactions-violation-iranian-sanctions>.

⁴⁰ See also, U.S. Dep’t of Treasury, ‘British Arab Commercial Bank plc Settles Potential Liability for Apparent Violations of the Sudanese Sanctions Regulations’ (Sept. 17, 2019), available at https://home.treasury.gov/system/files/126/20190917_bacb.pdf.

⁴¹ On October 20, 2020, OFAC announced a settlement with Berkshire Hathaway related to alleged violations of U.S. sanctions on Iran committed by Berkshire’s Turkish subsidiary. According to OFAC, Berkshire’s Turkish subsidiary made 144 shipments of cutting tools and related products to Turkish distributors with knowledge that the goods would be shipped on to Iran, available at https://home.treasury.gov/system/files/126/20201020_berkshire_settlement.pdf.

(a) CMIC Sanctions

186. The CMIC sanctions program imposes restrictions on direct and indirect investments by U.S. persons in entities designated as CMICs.
187. On June 3, 2021, U.S. President Biden signed E.O. 14032 amending E.O. 13959, which was issued on November 12, 2020.⁴² E.O. 14032 prohibits U.S. persons from engaging in the purchase or sale of any publicly traded securities of any persons listed in the Annex to the E.O., or determined by the Secretary of the Treasury, in consultation with the Secretary of State, and, as the Secretary of the Treasury deems appropriate, the Secretary of Defense:
- to operate or have operated in the defense and related material sector or the surveillance technology sector of the economy of the PRC; or to own or control,
 - or to be owned or controlled by, directly or indirectly, a person who operates or has operated in any sector described above, or a person who is listed in the Annex to E.O. 14032 or who has otherwise been determined to be subject to the prohibitions in E.O. 14032.
188. While the restrictions under E.O. 14032 are largely the same as E.O. 13959, E.O. 14032 expands the scope of companies that may be designated to include companies that operate in China’s defense or surveillance technology sector – defined as CMICs – rather than companies that meet the definition of a Communist Chinese Military Company (“CCMC”). Under E.O. 13959, the designations of companies had been primarily administered by the U.S. Department of Defense (“DoD”). E.O. 14032 provides the U.S. Department of Treasury, rather than DoD, with designation authority.
189. Separately, on June 3, 2021, the DoD issued a list of Chinese military companies pursuant to a reporting requirement in the 2021 National Defense Authorization Act (“2021 NDAA”),⁴³ which requires the DoD to publish an annual list of “Chinese military companies,” including a new type of “military-civil fusion contributor.”
190. Consequently, U.S. persons are prohibited from purchasing or selling any publicly traded securities, or any publicly traded securities that are derivative of such securities or are designed to provide investment exposure to such securities of CMIC designations.
191. The U.S. Government may impose new laws or regulations, or amend existing laws or regulations, altering the framework described above.
192. Notwithstanding, the CMIC sanctions are thus much narrower in scope than most sanctions programs administered by OFAC. Although E.O. 14032 restricts direct and indirect investments by U.S. persons in CMICs, E.O. 14032 does not impose any restrictions on the supply of goods and services to CMICs or the procurement of goods and services from CMICs.
193. In this vein, it is possible that the HKEX Sanctions Guidance is not intended to capture unilateral U.S. foreign investment restrictions such as the CMIC designations as economic sanctions, and that the HKEX Sanctions Guidance should therefore not be construed to treat CMICs as Sanctioned Targets. The HKEX however, has not issued any published decisions supporting this view.

⁴² See 86 Fed. Reg. 30,145 (June 3, 2021).

⁴³ See Pub. L. No. 116-283, 134 Stat. 3388, 10 U.S.C. §113 note. (2020).

194. Significantly, the CMIC sanctions designations apply only to the specifically designated entity. The subsidiaries and affiliates of CMICs are not automatically designated as CMICs; instead, subsidiaries of CMICs are only subject to the CMIC investment restrictions if they are separately designated as CMICs.⁴⁴

(b) Iran

195. As noted in the description of the Indirect Iran Sales above, the Company made sales during the TRP of products that were eventually sold to Iranian End-Users.
196. The U.S. Iran Sanctions program represents the implementation of multiple legal authorities. Some of these authorities are in the form of Executive Orders issued by the U.S. President. Other authorities are public laws (statutes) passed by the U.S. Congress. Authorities of Iran sanctions include the National Emergencies Act (“NEA”) of 1976,⁴⁵ IEEPA⁴⁶ and the Iran and Libya Sanctions Act of 1996 (“ILSA”, later renamed the Iran Sanctions Act (“ISA”)).⁴⁷ Since 1979, at least 26 Executive Orders addressing the imposition of sanctions against Iran (and Iranian government/entities/individuals) have been issued.
197. In accordance with his decision on May 8, 2018 to cease the United States’ participation in the Joint Comprehensive Plan of Action (“JCPOA”)⁴⁸ and to reimpose all of the U.S. sanctions lifted or waived in connection with the JCPOA, the former U.S. President Trump issued E.O. 13846 on August 6, 2018⁴⁹ to reimpose relevant provisions of E.O. 13574 of May 23, 2011;⁵⁰ E.O. 13590 of November 20, 2011;⁵¹ E.O. 13622 of July 30, 2012;⁵² and E.O. 13645 of June 3, 2013,⁵³ that had been revoked by E.O. 13716 of January 16, 2016.⁵⁴ E.O. 13846 broadens the scope of the sanctions that were in effect prior to January 16, 2016 and provides for greater consistency in the administration of Iran-related sanctions provisions.⁵⁵
198. Specifically, on October 26, 2020, OFAC designated the Iranian Ministry of Petroleum, the NIOC, and the National Iranian Tanker Company pursuant to E.O. 13224, as amended,⁵⁶ a counter-terrorism authority for their financial support to Iran’s Islamic Revolutionary Guard Corps-Qods Force (IRGC-QF), an entity designated under E.O. 13224.⁵⁷ Further, on the same day, OFAC also designated key subsidiaries of the Ministry of Petroleum, including National Iranian Oil Engineering and Construction Company (NIOEC), to the SDN List.

(c) Xinjiang

199. As noted above, the Company during the TRP made sales to customers located in Xinjiang.

⁴⁴ See 31 CFR § 586.404 See also OFAC FAQ, 857, <https://ofac.treasury.gov/faqs/857> (“The prohibitions in E.O. 13959, as amended, apply to a subsidiary of a Chinese Military-Industrial Complex Company (CMIC) listed on the NS-CMIC List only if such subsidiary itself is publicly listed on the NS-CMIC List by Treasury pursuant to E.O. 13959, as amended, or identified in the Annex of E.O. 13959, as amended. OFAC’s 50 percent rule does not apply to entities listed solely pursuant to E.O. 13959, as amended.”)

⁴⁵ See Pub. L. 94-412, 90 Stat. 1255, 50 U.S.C. §§ 1601-1651 (1976).

⁴⁶ See Title II of Pub. L. 95-223, 91 Stat. 1626, 50 U.S.C. 50 U.S.C. §§ 1701 *et seq.* (1977).

⁴⁷ See Public Law 104-172, 110 Stat. 1541; 50 U.S.C. § 1701 note (1996).

⁴⁸ See Joint Comprehensive Plan of Action (July 14, 2015), available at <https://2009-2017.state.gov/documents/organization/245317.pdf>.

⁴⁹ 83 Fed. Reg. 38,939.

⁵⁰ 76 Fed. Reg. 30,404.

⁵¹ 76 Fed. Reg. 72,609.

⁵² 77 Fed. Reg. 45,897.

⁵³ 78 Fed. Reg. 39,157.

⁵⁴ 81 Fed. Reg. 3,693.

⁵⁵ See 83 Fed. Reg. 38,939 (August 7, 2018).

⁵⁶ See E.O. 13224, 66 Fed. Reg. 49,083 (September 23, 2001), as amended by E.O. 13886, 84 Fed. Reg. 48,041 (September 9, 2019).

⁵⁷ See Treasury Sanctions Key Actors in Iran’s Oil Sector for Supporting Islamic Revolutionary Guard Corps-Qods Force, Press Release (October 26, 2020), available at <https://home.treasury.gov/news/press-releases/sm1165>.

200. Recent Xinjiang-related SDN designations have been made pursuant to the U.S. Global Magnitsky Act.⁵⁸ In July 2020, OFAC added XPSB, XPCC, and various current or former government officials to the SDN List in connection with “serious human rights abuses against ethnic minorities” in the XUAR.⁵⁹
201. Further, on March 22, 2021, OFAC added two current Chinese government officials to the SDN List for similar reasons.⁶⁰ All designations were made pursuant to E.O. 13818.

(d) Russia

202. As noted above, the Company during the TRP purchased products from a Russian supplier and made sales to the Russian customers, directly and indirectly.
203. Russia is not currently subject to a comprehensive embargo.
204. However, Russia is subject to increasingly strict international sanctions. At all times during the TRP, the U.S. and various other jurisdictions have maintained a variety of sanctions and export control measures targeting specific Russian persons, entities, and sectors. In response to the Russian invasion of Ukraine, multiple jurisdictions have enacted increasingly extensive sanctions on multiple Russian persons, entities, and sectors.
205. Of particular relevance, section 1(a)(i) of E.O. 14024 imposes sanctions on any person determined by the Secretary of Treasury, in consultation with the Secretary of State, to operate or have operated in the technology sector and defense and related material sector of the Russian economy, or any other sector of the Russian economy, as may be determined by the Secretary of Treasury, in consultation with the Secretary of State.⁶¹
206. On May 19, 2023, OFAC issued a determination that section 1(a)(i) of E.O. 14024 applies to “architecture, engineering, construction, manufacturing, and transportation sectors of the Russian Federation economy” such that any person determined to operate or have operated in such sectors would be subject to sanctions.⁶²
207. According to OFAC guidance,⁶³
- “[t]he term engineering sector of the Russian Federation economy includes activities such as advising; designing; recommending; consulting; constructing; installing, surveying; preparing studies, specifications, cost estimates, working drawings, process flow diagrams, arrangement drawings, or other materials; map making; planning; testing; analysis; and inspecting for engineering and related matters involving the Russian Federation. Such activities may be undertaken during any phase of an engineering project of any type and may not necessarily relate to a new construction or development project. The term additionally includes any related activities, including the provision or receipt of goods, services, or technology to, from, or involving the engineering sector of the Russian Federation economy.”

⁵⁸ See Subtitle F of Pub. L. 114-328, 130 Stat. 2533, 22 U.S.C. §2656 (2016).

⁵⁹ See Treasury Sanctions Chinese Entity and Officials Pursuant to Global Magnitsky Human Rights Accountability Act, Press Release (July 9, 2020), available at <https://home.treasury.gov/news/press-releases/sm1055>, and Treasury Sanctions Chinese Entity and Officials Pursuant to Global Magnitsky Human Rights Executive Order, Press Release (July 31, 2020), available at <https://home.treasury.gov/news/press-releases/sm1073>.

⁶⁰ See Treasury Sanctions Chinese Government Officials in Connection with Series Human Rights Abuse in Xinjiang (March 22, 2021), available at <https://home.treasury.gov/news/press-releases/jy0070>.

⁶¹ See <https://ofac.treasury.gov/media/57936/download?inline>

⁶² See <https://ofac.treasury.gov/media/931771/download?inline>

⁶³ See <https://ofac.treasury.gov/faqs/1126>

“[t]he term manufacturing sector of the Russian Federation economy includes activities such as the creation, modification, repair, testing, or financing, of goods by manual labor or machinery involving the Russian Federation and any related activities, including the provision or receipt of goods, services, or technology to, from, or involving the manufacturing sector of the Russian Federation economy.”

208. In addition, Russian-occupied regions in eastern Ukraine, namely Crimea and the Donetsk (“DNR”) and Luhansk (“LNR”) regions, are subject to comprehensive sanctions.

(6) Analysis

(a) Jurisdictional Considerations

209. Based on the information provided the Company, the Company’s overall exposure to the jurisdiction of U.S. Primary Sanctions administered by OFAC is low, reflecting the limited nexus between the U.S. and the Company’s operations.
210. The Company is not a U.S. person (as such term defined in para. II).
211. The Company’s U.S. operations are very minimal.
212. The Company has no subsidiaries, branches or personnel in the U.S.
213. Aside from the Licensed U.S. Technology, the Company does not use any materials or equipment that is imported from the U.S. or of U.S. origin in production.
214. The Company confirmed that it has no U.S. person employees (i.e., U.S. citizen or permanent resident alien).
215. The Company does not have any bank accounts in the United States or bank accounts with U.S. financial institutions (including foreign branches of U.S. financial institutions).
216. However, the Company stated that it sometimes conducts transactions (including sales to Russia) with customers denominated in U.S. dollars, and therefore it has some bank accounts in China denominated in U.S. Dollars.
217. Under these circumstances, the likelihood that any specific transaction or activity by the Company will involve sufficient nexus with the U.S. to constitute Primary Sanctioned Activity under the U.S. law is low.
218. Nevertheless, given the Company’s use of U.S. dollar-denominated bank accounts and the inherent possibility of incidental U.S. contacts, the risks that the Company’s activities during the TRP might satisfy the substantive elements of U.S. sanctions and export control offenses are further considered below.

(b) Screening of Counterparties – Relationships with Sanctioned Targets and Sanctioned Regions under U.S. Law

(i) Screening Methodology

219. As noted above, the Company provided a list of its 452 direct customers (i.e., entities purchasing products directly from the Company).

220. On March 4, 2024, 452 customer entries on the customer list provided in February 2024 were screened against the Consolidated Sanctions Lists using a third-party Descartes trade compliance software.
221. None of the 452 direct customers was listed as an SDN as of the date when the screening work was performed.
222. None of the 452 direct customers had a delivery address or business address in a Sanctioned Country.
223. The Consolidated Sanctions Lists include:
- The Specially Designated Nationals and Blocked Persons List (“SDN List”) and other sanctions lists administered by OFAC, including the Foreign Sanctions Evaders List, the SSI List, the List of Foreign Financial Institutions Subject to Correspondent Account or Payable-Through Account Sanctions, the Non-SDN Palestinian Legislative Council List, the Non-SDN Menu-Based Sanctions List, and the Non-SDN Communist Chinese Military Companies List.
 - The Entity List and other sanctions lists administered by the BIS, including the Denied Persons List, the Unverified List, and the Military End User (“MEU”) List.
 - Other sanction lists administered by Department of State, including the Nonproliferation Sanctions List, and the Arms Export Control Act (“AECA”) Debarred List.
224. (To the extent that such lists are administered by authorities other than OFAC, the relevant results are discussed in the respective subsections below).

(ii) Screening Methodology Limitations

225. Our screening methodology is subject to several limitations.
226. First, because the Company does not routinely collect information about the identities of the upstream owners of customers or other counterparties, screening work was not performed on any of the customers and counterparties’ owners/controllers. It is therefore possible that the ultimate legal and/or beneficial owner(s) of certain customers are in fact sanctioned under any U.S. sanctioned programs, in which case OFAC’s 50% Rule will, by extension, cause the sanction measures imposed against the sanctioned persons to likewise apply to the relevant customer.
227. Second, the screening of the names of counterparties provided the Company using the Descartes screening software compares the entered name against relevant lists and returns potential matches. The system does not have the capability to identify ownership relationships and other affiliations linking the entered counterparty to direct or indirect shareholders, subsidiaries, or affiliates that may be Sanctioned Targets. In some instances, affiliations with Sanctioned Targets were detected though near-matches with the names of Sanctioned Targets indicated obvious affiliations. In other cases, such affiliations were detected based on general commercial awareness. However, our methodology does not methodically detect affiliations with Sanctioned Targets other than direct matches or near-matches to the entered names.
228. Third, screening was conducted as of the date of screening as indicated at paragraph 219 above. Accordingly, this methodology would not detect scenarios in which an entity was

designated at the time of the relevant transactions, but subsequently de-listed and thus not included on the Consolidated Sanctions Lists at the time of screening. For the same reasons, this methodology would not detect scenarios in which a party was designated after the screening date, or in which the specific restrictions and licensing requirements applicable to a party were changed after the screening date.

- ²²⁹. Consequently, our opinion does not address, and cannot exclude, the possibility of International Sanctions risks arising from any of these scenarios.

(B) Analysis – Relationship with Specific Customers

- ²³⁰. This subsection assesses the risks that the Company’s commercial relationships with specific customers during the TRP infringed relevant International Sanctions administered by OFAC.

(1) CMIC Affiliates

- ²³¹. The CMIC Affiliates are affiliates of parent companies which are currently designated on the Non-SDN CMIC List based on U.S. E.O. 14032 and E.O. 13959, as amended.

- ²³². However, as noted above, subsidiaries and affiliates of CMICs are not automatically subject to the CMIC investment restrictions.

- ²³³. Moreover, the CMIC investment restrictions only concern direct and indirect investments by U.S. persons; they do not apply to sales activities by Chinese companies such as the Company.

- ²³⁴. Based on the facts as provided by the Company, the sales to the CMIC Affiliates would not satisfy either the jurisdictional or substantive elements of a U.S. primary sanctions violation.

(2) Xinjiang Customers

- ²³⁵. The eleven Xinjiang Customers are not included in any of the U.S. Consolidated Sanctions Lists.

- ²³⁶. An online company registration information database shows that as of March 8, 2024, the ten out of the eleven Xinjiang Customers are not owned/controlled by Xinjiang Public Security Bureau (“XPSB”), or Xinjiang Production and Construction Corps (“XPCC”), or various current or former government officials designated as SDNs in connection with “serious human rights abuses against ethnic minorities” in the XUAR.

- ²³⁷. One of the eleven Xinjiang Customers, Xinjiang Tianli Petrochemical Co., Ltd., is 34.99994% owned by “State owned Capital Investment and Operation Group Co., Ltd. of the Seventh Division of Xinjiang Production and Construction Corps,” which is an SDN by virtue of XPCC’s 100% ownership.

- ²³⁸. “State owned Capital Investment and Operation Group Co., Ltd. of the Seventh Division of Xinjiang Production and Construction Corps” is 10% owned by “State owned Assets Supervision and Administration Commission of XPCC” and 90% owned by “State owned Assets Supervision and Administration Commission of the Seventh Division of XPCC.”

- ²³⁹. However, SDN’s 34.99994% ownership of Xinjiang Tianli Petrochemical Co., Ltd. would not render it an SDN by operation of the 50% Rule.

240. Based on the facts as provided by the Company, the sales to the Xinjiang Customers would not satisfy either the jurisdictional or substantive elements of a U.S. primary sanctions violation.

(3) Russian Supplier

241. According to the Russian Supplier's public website, the Russian Supplier is a manufacturer of products for the automation of industrial production including pressure transmitters, water pressure sensors, pressure sensors for boilers, and gauge pressure sensors.⁵⁹

242. As of March 4, 2024, the Russian Supplier was not listed on the SSI list or other U.S. sanctions lists.

243. According to the Company, purchases from the Russian supplier did not involve any U.S. persons, any use of U.S. dollars, or any other connection with the U.S.

244. Based on these facts as provided by the Company, the purchases from the Russian Supplier would not satisfy either the jurisdictional or substantive elements of a U.S. primary sanctions violation.

(4) Russian Customer: AXI

245. As of March 4, 2024, AXI is not specifically listed on any U.S. sanctions lists.

246. As noted above, section 1(a)(i) of E.O. 14024 imposes sanctions on any person determined by the Secretary of Treasury, in consultation with the Secretary of State, to operate or have operated in the technology sector and defense and related material sector of the Russian economy, or any other sector of the Russian economy, as may be determined by the Secretary of Treasury, in consultation with the Secretary of State.⁶⁴

247. On May 19, 2023, OFAC issued a determination that section 1(a)(i) of E.O. 14024 applies to "architecture, engineering, construction, manufacturing, and transportation sectors of the Russian Federation economy" such that any person determined to operate or have operated in such sectors would be subject to sanctions.⁶⁵

248. AXI's website states that its services are "to deal with the issues of engineering, manufacturing, supply and installation of process equipment operating at high temperatures in different industries. The most considerable experience has been accumulated in oil refining and petrochemistry[.]"

249. AXI therefore likely qualifies as operating in the engineering and/or manufacturing sectors of the Russian economy.

250. Of the nine transactions the Company entered with AXI during the TRP, one transaction was entered into on July 20, 2023, which is after the U.S. imposed sanctions on the engineering and manufacturing sectors of the Russian economy on May 19, 2023.

⁵⁹ See https://www.promav.ru/tech_description/

⁶⁴ See <https://ofac.treasury.gov/media/57936/download?inline>

⁶⁵ See <https://ofac.treasury.gov/media/931771/download?inline>

251. According to the Company, this transaction did not involve any U.S. persons, any use of U.S. dollars, or any other connection with the U.S.
252. Based on these facts as provided by the Company, the U.S. nexus to establish jurisdiction for purposes of a U.S. primary sanctions violation arising from sales to AXI would not be satisfied.
253. Based on these facts as provided by the Company, we conclude that the risk of the Company's business with AXI violating primary sanctions is low.

(5) Russian Customer Safe Technologies Inc.

254. As of March 4, 2024, Safe Technologies is not specifically listed on any U.S. sanctions lists.
255. As discussed above, pursuant to section 1(a)(i) of E.O. 14024, the U.S. imposed sanctions on the engineering and/or manufacturing sectors of the Russian economy as of May 2023.⁶⁶
256. Safe Technologies' website states that it provides services in designing and construction of industrial facilities for the chemical industry, power industry, petrochemical and gas industry as well as in the field of environmental protection.⁶⁷
257. Safe Technologies therefore likely qualifies as operating in the engineering and/or manufacturing sectors of the Russian economy.
258. According to the Company, sales to Safe Technologies did not involve any U.S. persons, any use of U.S. dollars, or any other connection with the U.S.
259. Further, the transaction with Safe Technologies was entered into and completed prior to May 2023 when the sanctions on the engineering and/or manufacturing sectors of the Russian economy became effective.
260. Based on these facts as provided by the Company, the sales to Safe Technologies would not satisfy either the jurisdictional or substantive elements of a U.S. primary sanctions violation.

(6) Russian Customer Venteco LLC

261. As of March 5, 2024, Venteco LLC is not specifically listed on any U.S. sanctions lists.
262. As discussed above, pursuant to section 1(a)(i) of E.O. 14024, the U.S. imposed sanctions on the engineering and/or manufacturing sectors of the Russian economy.⁶⁸
263. Publicly available information indicates that Venteco LLC engages in design and engineering of cooling towers,⁶⁹ and likely qualifies as operating in the engineering and/or manufacturing sectors of the Russian economy.
264. According to the Company, sales to Venteco LLC did not involve any U.S. persons, any use of U.S. dollars, or any other connection with the U.S.

⁶⁶ See <https://ofac.treasury.gov/media/931771/download?inline>

⁶⁷ <https://zaobt.ru/en/about>

⁶⁸ See <https://ofac.treasury.gov/media/931771/download?inline>

⁶⁹ See <https://venteco.ru/en/about-us/>

265. Based on these facts as provided by the Company, the U.S. nexus to establish jurisdiction for purposes of a U.S. primary sanctions violation arising from sales to Venteco LLC would not be satisfied.
266. Based on these facts as provided by the Company, we conclude that the risk of the Company's business with Venteco LLC violated primary sanctions is low.

(7) Indirect Customers – Indirect Iran Sales

267. As explained above, there is a substantial likelihood that the Indirect Iran Sales involved the eventual sales of products to NIOEC or NIOC.
268. Both NIOEC and NIOC are SDNs; accordingly, sales involving any U.S. Persons, any payments or transaction in U.S. dollars, and U.S. products, or any activities in the U.S. may violate U.S. primary sanctions.
269. However, according to the Company, the Indirect Iran Sales did not involve any U.S. Persons, any payments or transaction in U.S. dollars, any U.S. products, or any activities in the U.S.
270. Based on these facts as provided by the Company, the U.S. nexus to establish jurisdiction for purposes of a U.S. primary sanctions violation arising from the Indirect Iran Sales would not be satisfied.
271. Risks in connection with the Indirect Iran Sales are further discussed in connection with Secondary Sanctions Risks below.

(8) Indirect Customers – Indirect Russia Sales

272. As noted above, the Company entered into a contract to supply products from China to the Turkish Customer, which was ultimately delivered to AGCC, a customer in Russia.
273. The Turkish Customer and AGCC were each screened using the Descartes screening software (using the same methodologies and subject to the same limitations as discussed elsewhere in this Memorandum) on March 5, 2024. The Turkish Customer and AGCC are not designated on any sanction lists within the U.S. Consolidated Sanctions Lists as of March 5, 2024.
274. As discussed above, as of May 19, 2023, the U.S. has imposed sanctions pursuant to section 1(a)(i) of E.O. 14024 on various sectors of the Russian economy including the manufacturing sector.⁷⁰
275. In accordance with OFAC guidance on the term “manufacturing sector,”⁷¹ AGCC as a producer of polymers⁷² is highly likely to qualify as operating in the manufacturing sector of the Russian economy.
276. According to the Company, the sale of products ultimately destined for AGCC was invoiced and settled in RMB.

⁷⁰ See <https://ofac.treasury.gov/media/931771/download?inline>

⁷¹ See <https://ofac.treasury.gov/faqs/1126>

⁷² See <https://www.sibur.ru/en/press-center/news-and-press/AmurGasChemicalComplexsecuresprojectfinancing/>

277. Based on these facts as provided by the Company, the U.S. nexus to establish jurisdiction for purposes of a U.S. primary sanctions violation arising from the Indirect Russia Sales would not be satisfied.

278. Based on these facts as provided by the Company, we conclude that the risk of Ruichang's indirect business with AGCC under primary sanctions is low.

(C) U.S. Export Controls Administered by BIS – Entity List, Denied Persons List, Unverified List, Military End Users

279. This subsection addresses the Company's exposure to U.S. export control measures, which may constitute International Sanctions for purposes of the HKEX Sanctions Guidance.

(1) Overview of U.S. Export Controls

280. The U.S. export control regime regulates the export, transfer or disclosure of U.S. products, software, and technology to non-U.S. jurisdictions and non-U.S. persons based on the nature of the product or technology, as well as the destination, transferee, or end-use of a specific export or transfer.

281. U.S. export controls are implemented through a system of categorical restrictions and licensing procedures for specific exporters, customers, and transactions.

282. The EAR, 15 C.F.R. § 730, et seq., establish the substantive and procedural rules for administering U.S. export controls with respect to “dual use” items and certain military items.⁷³ “Dual use” commonly refers to any item that has both civilian applications and applications in connection with military, terrorism, or weapons of mass destruction activities.⁷⁴ The Bureau of Industry Security (“BIS”) of the Department of Commerce administers the EAR.⁷⁵

283. Technically, the EAR governs the export of any products or technology that are not separately and exclusively regulated by another U.S. government agency. Most notably, the export of certain military-use items is regulated exclusively by a licensing system administered by the U.S. Department of State pursuant to the International Traffic in Arms Regulations (“ITAR”).⁷⁶

284. The EAR also include certain restrictions on the conduct of U.S. persons applicable regardless of the involvement of any items subject to the EAR. (Such measures are thus similar to economic sanctions administered by OFAC.)

285. The U.S. jurisdiction applies to goods, software and technology that are subject to the EAR and located anywhere in the world.⁷⁷

286. The EAR applies to all items (i.e., commodities, software, and technology) “subject to the EAR,” which includes not just U.S.-made items or items physically in the United States, but also to certain foreign-made commodities.⁷⁸ Under the “de minimis” rules, non-U.S. products

⁷³ See 15 C.F.R. 730 et seq.

⁷⁴ See 15 C.F.R. § 730.3.

⁷⁵ See The U.S. Department of Commerce, International Trade Administration, U.S. Export Controls, available at <https://www.trade.gov/us-export-controls>.

⁷⁶ See 22 C.F.R. 120 et seq.

⁷⁷ See 15 C.F.R. § 734.3.

⁷⁸ Non-U.S. made items are subject to the EAR if they meet the “direct product” rule or “de minimis” rule. The direct product rule looks at

incorporating more than a specified percentage of controlled U.S. content are still considered subject to the EAR.⁷⁹ Under the foreign direct product rule, non-U.S. products made with certain U.S. origin plant and technology (such as certain U.S. semiconductor manufacturing equipment) are also subject to the EAR.⁸⁰

287. Therefore, U.S. persons and foreign persons (including foreign companies) must determine if their items are subject to the EAR.
288. The EAR applies to a broad range of “items” including tangible commodities, technology, and software manufactured in the U.S. (as well as non-U.S. products within U.S. territory).⁸¹ The EAR covers not only sensitive products and technology (to be controlled due to the intrinsic sensitivity), but also most non-sensitive products and technology (to be controlled with respect to transfers to sensitive destinations, end-users, or end-uses). Intrinsically sensitive or strategic goods or technology are typically designated by an Export Control Classification Number (“ECCN”), while non-sensitive products subject to the EAR are generally designated as EAR-99.⁸²
289. Depending on the destination country, end-user, and the item’s ECCN, exporting or re-exporting an item subject to the EAR may require a U.S. export license unless a license exception was available.⁸³ License applications would be subject to review under varying policies (e.g., presumption of approval, presumption of denial, or a case-by-case review) as further described in the EAR.

(2) BIS Entity Designations Involving Products Subject to EAR

290. The BIS publishes multiple lists of entities and individuals subject to licensing requirements and other restrictions on transactions involving products subject to the EAR.
291. The Entity List is a catalogue of individuals and entities subject to specific licensing requirements for the export, re-export, or transfer of certain products and technology subject to the EAR.⁸⁴ The Entity List identifies the specific licensing requirements. The BIS licensing policy for many entities is a presumption of denial of any licensing request.
292. Entities may be added to the Entity List when there “is reasonable cause to believe, based on specific and articulable facts, that the entity has been involved, is involved, or poses a significant risk of being or becoming involved in activities that are contrary to the national security or foreign policy interests of the United States and those acting on behalf of such entities may be added to the Entity List pursuant to this section...”⁸⁵
293. In recent years, the BIS has added multiple Chinese entities to the Entity List for a variety of reasons, including foreign policy, defense policy and security.⁸⁶

whether a non-U.S. made item is subject to the EAR because it is a direct product of certain U.S. origin software or technology or is produced by a plant or major component of a plant located outside the United States that is a direct product of certain U.S.-origin software or technology. The de minimis rule examines whether a particular item is subject to the EAR because there is physically incorporated “controlled” U.S.-origin content in excess of a de minimis percentage. See 15 C.F.R. §734.3(a)(3)-(5).

⁷⁹ See 15 C.F.R. § 734.4(a).

⁸⁰ See 15 C.F.R. § 736.2(b).

⁸¹ See 15 C.F.R. §730.5.

⁸² See The U.S. Department of Commerce, International Trade Administration, (ECCN) and Export Administration Regulation (EAR99), available at <https://www.trade.gov/eccn-and-export-administration-regulation-ear99>.

⁸³ See 15 C.F.R. §730.7.

⁸⁴ See 15 C.F.R. Supplement No. 4 to Part 744.

⁸⁵ See 15 C.F.R. §744.11(b).

⁸⁶ Examples of recent additions of Chinese parties to the entity list include: Bureau of Industry and Security, Dep’t Commerce, *Addition of*

294. The BIS also publishes the Denied Persons List (individuals and entities that have been denied export privileges)⁸⁷ and the Unverified List (a list of foreign parties whose identities the BIS has been unable to verify in the past, triggering additional documentation requirements for exports).⁸⁸ These lists are relevant to exports, re-exports and transfers of products subject to the EAR.
295. Similarly, the BIS publishes the Military End User List.⁸⁹ Exports of certain products subject to the EAR without a BIS license are prohibited where exporters have reason to believe that the products may be diverted to a military end use in China, Russia, Venezuela, or Myanmar. The Military End User List is a non-exhaustive list of such entities, although exporters must still conduct appropriate diligence on other customers. The MEU List restrictions apply to exports, reexports and transfers of products subject to the EAR.

(3) Analysis

296. Based on the information provided by the Company regarding its incorporation and organization,⁹⁰ the Company does not meet the definition of a U.S. person for purposes of the EAR.
297. Accordingly, provisions of the EAR applicable only to U.S. persons would not apply to the Company.
298. However, because the EAR also establishes certain requirements applicable to non-U.S. persons, further analysis of potential exposure is set forth below.

(a) Entity List

299. Based on the due diligence process and the information provided by the Company, the Company itself is not designated on the Entity List.
300. According to the Company, the Company:
- generally purchases all materials, equipment, software, and/or technologies used in the production of its products from suppliers in China.
 - does not purchase or otherwise procure any materials, equipment, software, and/or technologies used in the production of its products that are of U.S. origin, imported from the U.S., or otherwise subject to the EAR.
301. Under these facts, the Company's operations have minimal exposure to U.S. export controls pursuant to the EAR.

Entities to the Entity List, 84 Fed. Reg. 22,961 (May 16, 2019) (adding entities based on involvement in U.S. sanctions violations); Bureau of Industry and Security, Dep't Commerce, *Addition of Certain Entities to the Entity List*, 84 Fed. Reg. 54,002 (Oct. 9, 2019) (adding entities based on involvement with government activities in Xinjiang); Bureau of Industry and Security, Dep't Commerce, *Addition of Entities to the Entity List and Revision of Entries on the Entity List*, 85 Fed. Reg. 52,898 (Aug. 27, 2020) (adding entities based on involvement with government activities in South China Sea)

⁸⁷ See Dep't Commerce, International Trade Administration, The Denied Persons List, *available at* <https://www.bis.doc.gov/index.php/the-denied-persons-list>.

⁸⁸ See 15 C.F.R. Supplement No. 6 to Part 744.

⁸⁹ See 15 C.F.R. Supplement No. 7 to Part 744.

⁹⁰ See Statement of Facts, IV(A)(1).

³⁰². Accordingly, if the Company itself were designated on the Entity List for any reason, the resulting severance of access to U.S. products, software, or technology would not likely materially impact its procurement practices and operations.

(D) Exposure to Primary Sanctions under U.S. CMIC Investment Restrictions

³⁰³. This subsection addresses the Company’s exposure to Primary Sanctions in connection with the CMIC investment restrictions.

³⁰⁴. As a threshold matter, it is unclear whether the CMIC restrictions qualify as International Sanctions for purposes of the HKEX Sanctions Guidance. The CMIC restrictions narrowly prohibit direct and indirect investments by U.S. persons in the designated entities. The CMIC restrictions specifically target Chinese companies acting pursuant to Chinese government policy. Although the HKEX has not issued published guidance on this issue, there may be reasonable grounds for contending that the HKEX would not consider the reputational and other risks arising from dealing with a CMIC to be among the risks intended to be addressed by the HKEX Sanctions Guidance.

(1) Risk of Designation as CMIC

³⁰⁵. Based on Section 1260H of the 2021 NDAA,⁹¹ below are factors that would contribute to the likelihood a company would be considered a “military-civil fusion contributor” to the Chinese defense industrial base, which could lead to designation on the CMIC List:

- Operation in, or prior operation in, the defense and related material sector or the surveillance technology sector of the economy of the PRC;
- To own or control, or to be owned or controlled by, directly or indirectly, a person who operates or has operated in any sector described above or has been designated as a CMIC;
- Knowingly receiving assistance from the Government of China or the Chinese Communist Party through science and technology efforts initiated under the Chinese military industrial planning apparatus;
- Affiliation with the Chinese Ministry of Industry and Information Technology, including research partnerships and projects;
- Receiving assistance, operational direction or policy guidance from the State Administration for Science, Technology, and Industry for National Defense;
- Being defined as a defense enterprise by the State Council of the People’s Republic of China;
- Residing in or affiliated with a military-civil fusion enterprise zone or receiving assistance from the Government of China through such enterprise zone;
- Being awarded with receipt of military production licenses by the Government of China, such as a Weapons and Equipment Research and Production Unit Classified Qualification Permit, Weapons and Equipment Research and Production Certificate,

⁹¹ See 134 Stat. at 3404.

Weapons and Equipment Quality Management System Certificate, or Equipment Manufacturing Unit Qualification; and

- Advertising on national, provincial, and non-governmental military equipment procurement platforms in China.

³⁰⁶. Based on our due diligence process and the information provided by the Company, we consider the risk of placement on the CMIC List to be low for the following reasons:

- Ruichang generally does not meet the criteria associated with a “Chinese military company” as defined in Section 1260H of the 2021 NDAA nor does the Company operate in China’s defense or surveillance technology sector;
- The Company confirmed that it does not currently operate in, or have prior operations in, China’s defense or surveillance technology sectors; and
- The Company further confirmed that except for certain subsidies from the Chinese government as the financial support for the R&D projects undertaken by the Company, it did not receive any other assistance from the Government of China or the Chinese Communist Party through science and technology efforts initiated under the Chinese military industrial planning apparatus. Nor did it have any affiliation with the Chinese Ministry of Industry and Information Technology, including research partnerships and projects or receive any assistance, operational direction or policy guidance from the State Administration for Science, Technology, and Industry for National Defense.

(2) Risks of Dealings with CMICs

³⁰⁷. As noted above, the Company made sales during the TRP to CMIC Affiliates.

³⁰⁸. The Non-SDN CMIC program does not prohibit U.S. persons from selling/purchasing goods/services to the designated CMIC.

³⁰⁹. Moreover, the Non-SDN CMIC program does not restrict non-U.S. persons from investment in CMICs.

³¹⁰. Furthermore, the CMIC investment restrictions do not apply automatically to subsidiaries or affiliates of entities designated as CMICs.

³¹¹. Based on these facts provided by the Company, we conclude that the risk of Ruichang’s placement on the CMIC List is low and that the Company’s sales to CMIC Affiliates do not constitute primary sanctions violations.

VII Exposure to U.S. Secondary Economic Sanctions

³¹². This section assesses the risks that the Company’s activities during the TRP constitute Secondary Sanctionable Activity under U.S. law.

³¹³. Under current E.U. law and practice, the E.U. does not impose “secondary sanctions” on conduct or entities with no nexus to the E.U.

(A) Framework

- ³¹⁴. Under the HKEX Sanctions Guidance, “Secondary Sanctionable Activity” means certain activity by a listing applicant that may result in the imposition of sanctions against the Relevant Person(s) by a Relevant Jurisdiction (including designation as a Sanctioned Target or the imposition of penalties), even though the listing applicant is not incorporated or located in that Relevant Jurisdiction and does not otherwise have any nexus with that Relevant Jurisdiction.
- ³¹⁵. Several U.S. sanctions programs specifically authorize secondary sanctions on third-country entities in connection with Iran, North Korea, Syria, Cuba, Russia, and Hong Kong S.A.R. Implementing authorities may select from a “menu” of penalties to be imposed on the target (or its government).
- ³¹⁶. In addition, most U.S. sanctions programs allow parties providing material or significant assistance to SDNs to be designated as SDNs.⁹²

(B) Potentially Relevant Secondary Sanctions Measures

- ³¹⁷. Although non-U.S. persons (such as the Company) risk being subject to U.S. secondary sanctions under sanctions programs administered by OFAC based on certain activities involving Sanctioned Targets and Sanctioned Countries, the Company’s activities during the TRP involved minimal exposure to U.S. secondary sanctions.
- ³¹⁸. First, under most OFAC sanctions programs, OFAC may impose sanctions on non-U.S. persons for facilitating a “significant” and/or “material” transaction for or on behalf of SDNs. However, none of the Company’s customers are designated on the SDN List. Accordingly, the risk of such “material support” designations is low.
- ³¹⁹. Similarly, non-U.S. persons can also risk U.S. secondary sanctions liability by operating in certain economic sectors (e.g., certain economic sectors in Iran, Russia, and Venezuela).

(1) Iran-Related Measures

- ³²⁰. Multiple U.S. sanctions measures on Iran authorize Secondary Sanctions.
- ³²¹. In practice, the majority of secondary sanctions designations by OFAC are imposed in support of U.S. primary sanctions on Iran.⁹³
- ³²². The Indirect Iran Sales potentially implicate the authorization of secondary sanctions under E.O. 13846.
- ³²³. E.O. 13846 provides for secondary sanctions against any person determined to have “materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services in support of, the National Iranian Oil Company (NIOC), Naftiran Intertrade Company (NICO), or the Central Bank of Iran” at any time “on or after November 5, 2018.”

⁹² See generally, John D Buretta and Megan Y Lew, Global Investigations Review, U.S. Sanctions (July 13, 2021), available at <https://globalinvestigationsreview.com/guide/the-guide-sanctions/second-edition/article/navigating-conflicting-sanctions-regimes>.

⁹³ See Jason Bartlett and Megan Ophel, Sanctions By The Numbers: U.S. Secondary Sanctions (August 26, 2021), available at <https://www.cnas.org/publications/reports/sanctions-by-the-numbers-u-s-secondary-sanctions>.

324. Searches for both NIOEC and NIOC in the OFAC Sanctions List Search Application on 19 December 2022 confirm that both entities are SDNs and are “subject to secondary sanctions.”
325. As previously noted, the Indirect Iran Sales involve sales by Ruichang to Chinese Resellers of products that appear to have been subsequently resold to NIOEC (or NIOC).
326. Pursuant to E.O. 13846 and other relevant authorities, secondary sanctions may potentially be imposed upon the Company to the extent that the Indirect Iran Sales are deemed to have “materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services in support of” NIOEC (or NIOC).
327. In published guidance, OFAC has identified the following factors in determining whether assistance may be considered significant for purposes of imposing secondary sanctions on financial institutions:⁹⁴
- the size, number, and frequency of the transactions, financial services, or financial transactions;
 - the nature of the transactions, financial services, or financial transactions, including their type, complexity, and commercial purpose;
 - the level of awareness of management and whether the transactions are part of a pattern of conduct;
 - the nexus of the transactions, financial services, and financial transactions and blocked persons;
 - the impact of the transactions, financial services, and financial transactions on statutory objectives;
 - whether the transactions, financial services, and financial transactions involve deceptive practices; and
 - other relevant factors that the Secretary of the Treasury deems relevant.
328. Similar considerations may inform the determination of whether the Indirect Iran Sales should be viewed as material.
329. Based on the factual representations of the Company, we consider there would be strong grounds for characterizing the Indirect Iran Sales as not material.
- There were only four discrete transactions in connection with a single project.
 - The Company did not enter any direct export transactions with NIOEC (or NIOC); instead, the Company made domestic sales to a Chinese customer, SEI.
 - The Company did not engage in any deceptive practices, as the domestic sales to SEI comported with Chinese law.

⁹⁴ In multiple OFAC’s guidance provided in Frequently Asked Questions relating to Iran sanctions, these factors are considered when interpreting a transaction “significant.” For example: <https://home.treasury.gov/policy-issues/financial-sanctions/faqs/289>

- Although the Company was on notice that the materials would be delivered to Iran, the Company was not directly involved in communications with NIOEC (or NIOC).
 - The Indirect Iran Sales were entered into in 2018 and 2019.
 - According to the Company, the Company did not make any subsequent direct or, to the best of the Company's knowledge, indirect sales to Iran or Iranian customers.
330. Please note, however, that the U.S. government has substantial discretion in determining whether, as a matter of foreign policy, to impose secondary sanctions. Under these circumstances, the Company's participation in the Indirect Iran Sales might be characterized as material on grounds that:
- The Indirect Iran Sales ultimately supported the Iranian petroleum sector, which is among the principal targets of U.S. sanctions policy towards Iran.
331. On balance, in the event that U.S. authorities were to examine the Indirect Iran Sales, U.S. authorities would be more likely to impose secondary sanctions on the Chinese Resellers as the primary direct suppliers to NIOEC (or NIOC) than on the Company, which acted as an upstream supplier to the Chinese Resellers rather than a direct supplier of NIOEC (or NIOC).
332. In the event of any investigation or inquiry by U.S. authorities, demonstrated cessation of business activities with Iran and implementation of procedures to prevent involvement in Secondary Sanctionable Activities would reduce the risks of secondary sanctions being imposed.
333. Accordingly, we consider the risks that the Company might be subjected to secondary sanctions based solely on the Indirect Iran Sales to be low, but cannot be excluded.
- (2) Russian-Related Measures – AXI, Special Technologies, Venteco LLC, and AGCC**
334. As discussed above, AXI, Special Technologies, Venteco LLC, and AGCC, likely operate in the engineering and/or the manufacturing sectors of the Russian economy, and are thereby subject to blocking sanctions pursuant to E.O. 14024.
335. In addition to blocking sanctions, E.O. 14024 allows the imposition of secondary sanctions by authorizing the designation of any persons determined "to have materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of" any of the activities proscribed by E.O. 14024, any entity engaged in such activities, or any entity whose property or interests are blocked pursuant to the order.
336. Because AXI, Special Technologies, Venteco LLC, and AGCC are subject to sanctions pursuant to E.O. 14024, dealings with them, whether direct or indirect, are potentially subject to secondary sanctions.
337. Consideration of the factors OFAC has identified in determining whether assistance may be considered significant for purposes of imposing secondary sanctions on financial institutions referenced in paragraph 326 are relevant to the determination of whether these sales should be viewed as material.

338. Based on the factual representations of the Company, we consider there would be strong grounds for characterizing the sales to AXI, Special Technologies, Venteco LLC, and AGCC as not material.

- AXI: There was only one single discrete transaction in connection with AXI that was entered into and completed after the U.S. sanctions on the manufacturing and engineering sectors of the Russian Federation economy became effective in May 2023 comprising only 0.03% of the Company's revenues in 2023.
- Safe Technologies: There was only one single discrete transaction in connection with Safe Technologies comprising only 0.002% of the Company's revenues in 2023, which was entered into and completed before the U.S. sanctions on the manufacturing and engineering sectors of the Russian Federation economy became effective in May 2023.
- Venteco LLC: There was only one single discrete transaction in connection with Venteco LLC comprising only 0.05% of the Company's revenues in 2023.
- AGCC: There was only one single discrete transaction in connection with AGCC. The contract was entered into in 2022 and a substantial part of the down payment was received on November 14, 2022 – before the U.S. sanctions on the manufacturing sector of the Russian economy became effective in May 2023. The final payment was made in October 2023.

339. As previously noted, however, the U.S. government has substantial discretion in determining whether, as a matter of foreign policy, to impose secondary sanctions. Under these circumstances, the Company's sales to AXI, Venteco LLC and AGCC might be characterized as material on grounds that:

- Sales to AGCC accounted for a substantial portion (approximately 11.48%) of the Company's total revenues in 2023.
- The Company directly negotiated the technical and commercial terms of the Indirect Russia Sales with AGCC.
- Sales to AXI and Venteco LLC were entered into and executed after the sanctions measure became effective.
- Sales to AXI, Special Technologies, Venteco LLC, and AGCC ultimately supported the engineering and/or manufacturing sectors in Russia, which are among the principal targets of U.S. sanctions policy towards Russia.

340. In the event of any investigation or inquiry by U.S. authorities, demonstrated cessation of business activities with sectors in the Russian economy subject to sanctions and implementation of procedures to prevent involvement in Secondary Sanctionable Activities would reduce the risks of secondary sanctions being imposed.

341. Accordingly, we consider the risks that the Company might be subjected to secondary sanctions based solely on the Indirect Russia Sales to be low, but cannot be excluded.

VIII Sanctioned Status

342. This section discusses whether the listing applicant is (1) a Sanctioned Target; (2) located, incorporated, organized, or resident in a Sanctioned Country; or (3) a Sanctioned Trader.

343. The HKEX Sanctions Guidance explains the risks arising if the “Applicant is a Sanctioned Target, is located, incorporated, organised or resident in a Sanctioned Country or is a Sanctions Trader” as follows: “Depending on the facts and circumstances, the Exchange may determine that such a listing applicant is not suitable for listing due to reputational risk or impose other restrictions (e.g., the listing applicant might be required to ensure that its shares are not offered to nationals of the Relevant Jurisdictions).”⁹⁵

(A) Sanctioned Target

344. “Sanctioned Target” is defined in the HKEX Sanctions Guidance as “any person or entity (1) designated on any list of targeted persons or entities issued under the sanctions-related law or regulation of a Relevant Jurisdiction; (2) that is, or is owned or controlled by, a government of a Sanctioned Country; or (3) that is the target of sanctions under the law or regulation of a Relevant Jurisdiction because of a relationship of ownership, control, or agency with a person or entity described in (1) or (2).”
345. To the extent that the U.S. is considered a Relevant Jurisdiction, Sanctioned Targets would include entities designated on the various sanctions lists maintained by OFAC and BIS.
346. Pursuant to the 50% rule, Sanctioned Targets would also include persons 50% or more owned by one or more SDNs.
347. As of March 12, 2024, neither the Company nor its principal shareholders are designated on any list of targeted persons or entities issued under the sanctions-related law or regulation of the U.S., U.K., Australia, or E.U. Accordingly, the Company does not qualify as a Sanctioned Target for purposes of the HKEX Sanctions Guidance.
348. As of March 12, 2024, none of the owners and entities listed in the Ruichang Organization chart (in the statement of facts) is designated on the U.S. Consolidated Sanctions List.
349. As of March 12, 2024, none of the owners and entities listed in the Ruichang Organization chart (in the statement of facts) is designated on the U.S. Consolidated Sanctions List.
350. Accordingly, the Company does not qualify as a Sanctioned Target for purposes of the HKEX Sanctions Guidance.

(B) Sanctioned Country

351. The Company is incorporated in China. China is not currently a Sanctioned Country for purposes of the HKEX Sanctions Guidance.
352. The Company is, therefore, not located, incorporated, organized, nor resident in a Sanctioned Country.

(C) Sanctioned Trader

353. The HKEX Sanctions Guidance defines a “Sanctioned Trader” to mean any person or entity that does a material portion (10% or more) of its business with Sanctioned Targets and Sanctioned Country entities or persons.

⁹⁵ See HKEX Sanctions Guidance, para. 3.5.

354. The HKEX Guidance does not explicitly clarify several critical elements of this standard.
355. The HKEX Guidance does not explicitly clarify whether the 10% threshold should be applied to revenues during the entire TRP, the most recent financial year, any financial year within the TRP, or some other time period. Our analysis assumes that the standard applies to the TRP as whole, because the selection of any narrower time period would increase the risk of inconsistent application of the Sanctioned Trader test (for example, if a company’s entire TRP sales to Sanctioned Countries or Sanctioned Targets were concentrated in a single month). Our analysis assumes that the test applies to the entire TRP. However, we cannot exclude the risks that the HKEX or other authorities might apply an alternate test.
356. The HKEX Guidance does not explicitly clarify whether “doing business” may only be construed as referring to sales activities or both sales and purchasing activities. Our analysis assumes that “doing business” refers to sales activities and the calculation of percentages may reasonably be construed as referring to revenues. However, we cannot exclude the risks that the HKEX or other authorities might apply an alternate test.
357. We assume that, for purposes of the HKEX Sanctions Guidance, neither China or Hong Kong S.A.R. may be treated as Sanctioned Countries (regardless of the extent of any current or future International Sanctions enacted by other jurisdictions targeting China or Hong Kong S.A.R.).
358. The following table summarizes the Company’s Russia sales, both direct and indirect, during the TRP.

Relevant Customers	2021 Revenue (RMB)	2021 % Total Revenues	2022 Revenue (RMB)	2022 % Total Revenues	2023 Revenue (RMB)	2023 % Total Revenues	TRP Revenue (RMB)	% Total Revenues
	248,044,228.61		419,073,943.28		544,129,266.01		1,211,247,437.90	
Indirect Russia Sales (AGCC)	0	0	0	0	62,455,870.00	11.48%	62,455,870.00	5.16%
Direct Russia sales: Venteco LLC	0	0	0	0	294,400.00	0.05%	294,400.00	0.02%
Direct Russia sales: Safe Technologies Inc.	0	0	0	0	9,700.00	0.00%	9,700.00	0.00%
Direct Russia sales: Aliter Axi Co., Ltd.	6,836,640	2.76%	239,924.00	0.06%	609,000.00	0.11%	7,685,564.21	0.63%
Russia sales in total	6,836,640.00	2.76%	239,924.00	0.06%	63,368,970.00	11.65%	70,445,534.21	5.82%

359. As previously noted, revenues from the Indirect Iran Sales were recognized prior to the TRP although the transactions were partially completed during the TRP. Based on the information provided by the Company, the total value as stated in the contracts for the Indirect Iran Sales total RMB 32,344,980.14, which represents 2.67% of the total revenues for the entire TRP.
360. As previously noted, none of the Company’s customers during the TRP are SDNs. SDNs would clearly be considered Sanctioned Targets.
361. To the extent that U.S. measures restricting direct and indirect investment by U.S. persons in any entity designated as a CMIC qualify as a “sanctions-related law or regulation” for purposes of the HKEX Sanctions Guidance, then the CMIC Customers may be considered “Sanctions Targets.”

362. However, there are reasonable grounds for concluding that the specific U.S. investor restrictions pursuant to which the CMIC Customers are designated should not be considered “International Sanctions” for purposes of the HKEX Sanctions Guidance.
363. At the time of the issuance of the HKEX Sanctions Guidance in March 2019, the U.S. had not yet established the CMIC list. On this basis, the HKEX may have intended to address U.S. measures such as OFAC sanctions against SDNs and comprehensive sanctions against Sanctioned Countries such as Iran, but did not anticipate the more limited measures of the CMIC list.
364. As a corollary, the CMIC Customers would not qualify as Sanctioned Targets, so the Company would not qualify as a Sanctioned Trader based on sales to the CMIC Customers regardless of the percentage of total revenues.
365. The HKEX, however, has not issued any guidance confirming or rejecting this conclusion.
366. According to the Company, the revenues from the Indirect Iran Sales did not exceed 10% of the Company’s total revenues for the TRP.
367. Although the revenues from the Indirect Russia Sales slightly exceeded 10% of the Company’s total revenues for 2023 (11.48%), it comprised only 5.16% of the Company’s revenues for the entire TRP. Similarly, the Company’s revenues from sales to direct Russian customers (Venteco LLC, Safe Technologies, and AXI) did not exceed 10% of the Company’s total revenues for any year of the TRP or for the entire TRP combined.
368. Under the assumptions (a) that the HKEX applies the Sanctioned Trade standard to sales revenues from the entire TRP (as opposed to any shorter period within the TRP) and (b) that CMICs are not Sanctioned Targets, then the Company would not be characterised as a Sanctioned Trader on grounds that less than 10% of its revenues during the whole TRP involved indirect sales to Iran and both direct and indirect sales to Russia as listed in the Table above.

IX Suitability for Listing

369. This section assesses the Company’s suitability for listing in accordance with the Listing Rules and HKEX Sanctions Guidance.
370. The HKEX Sanctions Guidance identifies three categories of risks related to International Sanctions to be evaluated when evaluating a listing applicant’s suitability for listing:
- risk that the listing applicant has engaged in Primary Sanctioned Activity;
 - risk that the listing applicant has engaged in Secondary Sanctionable Activity; and
 - risk that the listing applicant is: (1) a Sanctioned Target; (2) located, incorporated, organized, or resident in a Sanctioned Country; or (3) a Sanctioned Trader.
371. The preceding sections discuss each of these three categories of risks.
372. The HKEX Sanctions Guidance (paragraph 3.8) further provides that an applicant is unlikely to be suitable for listing if: “(a) any sanctions risks to or sanctions imposed on the applicant

materially undermine its ability to continue its operations; (b) an applicant states that the funds are raised to finance Sanctioned Activities; or (c) its listing would cause a significant risk to the Relevant Persons or reputational risk to the Exchange.”

373. As explained below, none of these conditions are satisfied in this instance.

(A) Any sanctions risk to or sanctions imposed on the applicant materially undermine its ability to continue its operations

374. Based on the information provided by the Company, the sanctions risks to the Company would not materially undermine its ability to continue its operations.

(1) Current International Sanctions

375. As noted in the preceding sections: the Company’s activities during the TRP did not include violations of Primary Sanctions under the laws and regulations of any Jurisdictions.

376. Although the Company’s activities during the TRP included conduct (i.e., the Indirect Iran Sales, Indirect Russia Sales, and sales to entities operating in the engineering and manufacturing sectors of the Russian economy) that might constitute Secondary Sanctionable Activities, the risks that the Company might be subject to secondary sanctions and penalties are low (but cannot be excluded).

377. The Company’s activities during the TRP did involve material transactions with the CMIC Customers. To the extent that such entities are considered Sanctioned Targets, the Company would technically qualify as a Sanctioned Trader.

378. However, the Company’s relationships with the CMIC Customers did not infringe the measures pursuant to which such parties were designated by U.S. authorities.

379. Therefore, the Company: (1) is not a Sanctioned Target; (2) is not located, incorporated, organized, or resident in a Sanctioned Country; and (3) does not qualify as a Sanctioned Trader.

380. For these reasons, the sanctions risks to the Company with respect to International Sanctions *currently in force* would not materially undermine its ability to continue its operations.

(2) Possibility of Future International Sanctions

381. Please note that this Memorandum does not opine on the relative likelihood and relative materiality of any possible risks to the Company under future International Sanctions.

382. However, it is necessary to acknowledge the inherent risks of future changes in International Sanctions in connection with the Company’s operations.

383. International Sanctions are economic instruments of foreign policy whereby enacting jurisdictions exert pressure on foreign countries, governments, and persons by restricting access to international trade, finance, and investment.

384. Accordingly, all commercial enterprises face an inherent risk of direct or indirect effects of changes in International Sanctions resulting from changes in geostrategic conditions.

385. With respect to the Company, such inherent risks are relatively increased by several factors, including the extent that: (1) the Company produces products usable in the petroleum and petrochemical industries (which are frequently connected with Sanctioned Targets and Sanctioned Countries), and (2) the Company's headquarters and principal operations are in China (as China and Chinese companies are increasingly affected by foreign sanctions).
386. Moreover, business with Russia increases its exposure to potential future changes in International Sanctions. As a result of the Russia/Ukraine conflict multiples jurisdictions have enacted new sanctions and export control measures targeting Russian and Belarussian individuals, entities, and activities (including in third countries). As of June 2024, the measures enacted by different jurisdictions are incongruent, complex, and changing swiftly. Although Russia is not currently subject to comprehensive embargos, the scope and number of separate measures have comparable reach, including as a result of U.S. sanctions on certain sectors of the Russian economy, including the engineering and manufacturing sectors. Consequently, any transactions implicating Russian interests entail an inherent risk of inconsistency with future sanctions measures.
387. The Company's business with the CMIC Customers further increases these risks. To the extent that the U.S. government has already designated such counterparties for restrictive measures, such counterparties face elevated risks of expanded sanctions measures in the future.
388. At the same time, such inherent risks with respect to the Company are relatively decreased by several factors, including the extent that (a) the Company's business operations will still focus on domestic Chinese customers and suppliers and (b) the Company's commercial exposure to the jurisdiction of the U.S. and other sanctioning jurisdictions is limited.
389. As noted above, the Company's business with Russian customers accounted for only 5.82% of its revenues during the entire TRP.
390. In particular, the exposure of the Company's operations to the jurisdiction of the U.S. and other foreign sanction authorities is limited to the extent that (1) the Company's operations are all located in China; and (2) the Company's business involves the provision of services to domestic customers in China in transactions denominated and cleared in RMB onshore in China.
391. However, due to the inherent uncertainty of future International Sanctions, this Memorandum does not opine on any risks with respect to future International Sanctions.

(B) The funds are raised to finance Sanctioned Activities - Not Satisfied.

392. As disclosed in the Prospectus, the Company undertakes to the HKEX that:
- It will not use the proceeds from the Offering, as well as any other funds raised through the Stock Exchange, to finance or facilitate any activities or business, directly or indirectly, relating to or with any Sanctioned Person (i.e., person(s) and entity(ies) listed on restricted parties lists maintained by the European Union, the U.K. Overseas Territory Order (Myanmar) or Australia) or any other person or entity that is a target of any International Sanctions;
 - It will not undertake any sanctionable transactions that would expose the Company, or any person or entity, including the Company's or its subsidiaries' investors, the Stock Exchange, the listing sub-committee of the board of directors of the Stock

Exchange, Hong Kong Securities Clearing Company Limited (“HKSCC”) and HKSCC Nominees Limited, to the risk of being sanctioned;

- It will disclose on the respective websites of the Hong Kong Exchanges and Clearing Limited and the Listco if it believes that any transaction the Company has entered into in the Sanctioned Countries or with Sanctioned Persons would expose the Listco or its shareholders, or any other person involved in the Offering, to any risk of being sanctioned, and in its annual reports or interim reports its efforts on monitoring its business exposure to sanctions risk and its business intention relating to the Sanctioned Countries and with Sanctioned Persons; or

(C) Its listing would cause a significant risk to the Relevant Persons or reputational risk to the HKEX – Not Satisfied.

- ³⁹³. Based on the information provided by the Company, its listing would not cause a significant risk to the Relevant Persons or reputational risk to the HKEX in connection with the International Sanctions.
- ³⁹⁴. For the reasons discussed above, the sanctions risks to the Company under current International Sanctions are not significant.
- ³⁹⁵. Moreover, as discussed above, the principal connection between the Company’s operations and Sanctioned Targets under current International Sanctions involve the Company’s commercial relationships with the CMIC Customers.
- ³⁹⁶. To the extent that the CMIC Customers have been designated by U.S. authorities based on findings that such companies engaged in conduct consistent with Chinese government policies (albeit inconsistent with U.S. policy objectives), any potential reputational harms arising from the Company's dealings with the CMIC Customers may be reasonably excluded from the scope of risks cognizable under the HKEX Sanctions Guidance.

(D) Mitigation of Risks

- ³⁹⁷. We understand that the Company separately engaged an Internal Control Consultant for the purpose of evaluating the sufficiency of internal controls to mitigate sanctions risks, and therefore, we do not opine on the sufficiency of these measure. Notwithstanding, we recommend the following measures to mitigate the risks identified above.
- ³⁹⁸. To mitigate the potential sanction risks arising from the Indirect Iran Sales, direct and Indirect Russia Sales, including sales to AXI, AGCC, and Venteco LLC (including, but not limited to, the imposition of Secondary Sanctions by the U.S. authorities or consideration of the Company as a Sanctioned Trader), the Company may consider making the following prospective undertakings to HKEX:
- The Company shall not directly or indirectly apply the IPO proceeds and any other funds raised through the Exchange to (i) finance or facilitate any Sanctioned Activity; or (ii) pay any damages for terminating or transferring the relevant contracts that constitute Sanctioned Activity.
 - The Company shall confirm that it has terminated before listing all obligations under the relevant contracts that constitute the Sanctioned Activity and have measures in place to ensure compliance with the undertakings;

- The Company shall disclose in its annual, interim, and quarterly reports (if any) (i) details of any new and/ or existing Sanctioned Activity; (ii) its efforts in monitoring its business exposure to sanctions risks; and (iii) the status of, and the anticipated plans for, any new and/ or existing Sanctioned Activity; and
- The Company shall implement an International Sanctions Compliance Program including appropriate policies, procedures, and guidelines to prevent, detect, and mitigate (a) risks of conduct exposing the Company to liability or penalties under International Sanctions or (b) reputational risks associated with Sanctioned Countries and Sanctioned Targets.

399. To mitigate the potential sanction risks arising from dealings with the Russian customers (including, but not limited to, the imposition of Secondary Sanctions by the U.S. authorities or consideration of the Company as a Sanctioned Trader) and other activities involving Russia, the Company may consider making the following prospective undertakings to HKEX:

- As a cautious conservative approach, the Company may commit to discontinue any business directly or indirectly involving any Russian or Belarussian, or Crimea, DNR and LNR region customers;
- As reasonably conservative approach, the Company may commit to abstain from any business with any Russian or Belarussian, or Crimea, DNR and LNR region customers which would infringe sanctions enacted by the EU, UK, US, or Australia if undertaken by nationals of such jurisdictions (in other words, to comply with such jurisdictions' sanction measures as if jurisdictional requirements were satisfied), which would include abstaining from engaging in business with customers in Russia operating in the engineering and manufacturing sectors of the Russian economy;
- As an intermediate alternative, the Company may commit that:
 - The Company shall not conduct any business dealing in the Crimea, DNR and LNR regions;
 - Company shall require any customer to provide an end use certificate confirming that the products shall not be transferred to the Crimea, DNR and LNR regions;
 - The Company shall not conduct any business dealing with customers operating in the engineering and manufacturing sectors of the Russian economy;
 - Company shall require any customer to provide an end use certificate confirming that the products shall not be transferred to with customers operating in the engineering and manufacturing sectors of the Russian economy;
 - The Company shall amend relevant contractual agreements to require all transactions with Russia or Belarus to be priced, invoiced, and settled in RMB/CNY, with no collateral financing or other activities in other currencies;
 - The Company shall require all transactions with Russia or Belarus to be priced, invoiced, and settled in RMB/CNY; and

- The Company shall abstain from any business with entities designated by the U.S. as SDNs or involved in sectors specifically targeted by the U.S. as subject to Secondary Sanctions.

400. In the event of future investigations or inquiries from U.S. authorities, such prospective undertakings would provide contemporaneous evidence of the Company's intent upon listing to abstain from sanctionable activities.

401. Pursuant to such prospective undertakings, (1) the Company would not be subject to the conditions articulated in paragraph 3.8 of the HKEX Sanctions Guidance that may render a listing applicant unsuitable for listing and (2) the risk from exposure to International Sanctions currently in force to the Company, its investors and shareholders, and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of the Company's shares (including the Stock Exchange, its listing committee and related group companies) as a result of such involvement is low.

(E) Voluntary Self Disclosure (VSD)

402. The Voluntary Self Disclosure process is an enforcement mechanism structured to resolve "apparent violations" of U.S. primary sanctions, not a policy advocacy mechanism for mitigating the risks of "Secondary Sanctionable Activity."

403. The HKEX Guidance defines "Secondary Sanctionable Activity" as certain activity by a listing applicant that may result in the imposition of sanctions against the Relevant Person(s) by a Relevant Jurisdiction (including designation as a Sanctioned Target or the imposition of penalties), even though the listing applicant is not incorporated or located in that Relevant Jurisdiction and does not otherwise have any nexus with that Relevant Jurisdiction.

404. Under current U.S. law and practice, "Secondary Sanctionable Activity" involves material support for SDNs or significant involvement with specific regions or sectors in Sanctioned Countries.

405. Critically, however, engaging in such "Secondary Sanctionable Activity" (i.e., conduct by a non-U.S. person that may lead to imposition of secondary sanctions as a means of deterring such conduct) is distinct from violating U.S. primary sanctions (i.e., conduct by a U.S. person or non-U.S. person that satisfies both the jurisdictional and substantive elements of an infringement of U.S. primary sanctions measures).

406. OFAC's Economic Sanctions Enforcement Guidelines, provide the framework for enforcing all economic sanctions programs administered by OFAC, including the procedures governing Voluntary Self Disclosure (VSD).⁹⁶

407. The Enforce Guidelines define an "apparent violation" as "conduct that constitutes an actual or possible violation of U.S. economic sanctions laws, including the International Emergency Economic Powers Act (IEEPA), the Trading With the Enemy Act (TWEA), the Foreign Narcotics Kingpin Designation Act, and other statutes administered or enforced by OFAC, as well as Executive orders, regulations, orders, directives, or licenses issued pursuant thereto."⁹⁷

⁹⁶ 31 CFR Part 501, Appendix A

⁹⁷ See 31 CFR Part 501, Appendix A, I. Definitions

408. The Enforcement Guidelines similarly define a “Voluntary Self Disclosure” as a “self-initiated notification to OFAC of an apparent violation by a Subject Person that has committed, or otherwise participated in, an apparent violation of a statute, Executive order, or regulation administered or enforced by OFAC, prior to or at the same time that OFAC, or any other federal, state, or local government agency or official, discovers the apparent violation or another substantially similar apparent violation.”
409. As described above, we identified risks that “the Company’s commercial activities during the TRP did include certain transactions that might potentially qualify as Secondary Sanctionable Activities under U.S. law,” but “the risks that such conduct might result in the imposition of significant penalties are low and may be further mitigated by additional remedial measures.”
410. Such conduct would not, however, entail an “apparent violation” of U.S. sanctions for purposes of the VSD procedures of the OFAC Enforcement Guidelines.
411. In addition, the Indirect Iran Sales, Indirect Russian Sales and Direct Russian Sales as described above are Secondary Sanctionable Activities, and Secondary Sanctionable Activities are not “apparent violations” of existing sanctions measures for purposes of the VSD.
412. In the event that OFAC were to initiate the imposition of secondary sanctions, the Company might seek to engage with OFAC through a variety of legal and government relations channels.
413. As a practical matter, the demonstrated cessation of Secondary Sanctionable Activity reduces the risks that Secondary Sanctions might be imposed.
414. However, because Secondary Sanctionable Activity does not involve any apparent violation of U.S. sanctions measures, businesses which have engaged in such conduct would not be expected to submit a VSD.

X Limitations

415. This section summarizes important limitations on the scope of the analysis and conclusions set forth in this Memorandum.
416. This Memorandum is based *exclusively* on factual information provided by the Company, except where the text refers specifically to the results of inquiries conducted by DLA Piper using online corporate registry databases and lists of Sanctioned Persons published by governmental authorities.
417. The inclusion of phrases attributing specific statements to the Company in specific sentences does not imply that other factual statements may be attributed to other sources.
418. We have not audited or otherwise verified any of the factual information provided by the Company.
419. We have relied on the Company to accurately search and review the Company’s own records and access factual information known to the Company’s personnel when responding to our requests for information and providing information to us.
420. We have not reviewed, approved, supervised, or otherwise opined on the methodologies or thoroughness of such searches and reviews by the Company.

421. Before the finalization of this Memorandum, the Company has reviewed the Memorandum, including all statements of fact, with its counsel and confirmed that the factual statements herein are accurate, complete, and not misleading.
422. Accordingly, this Memorandum has relied upon and assumed the accuracy and completeness of all factual information provided by the Company.
423. To the extent that any information provided by the Company is in any way inaccurate, incomplete, or misleading, the accuracy of our analysis and conclusions may be affected.
424. In addition, this Memorandum is subject to limitations in the screening methodology, as discussed above. Our analysis and conclusions exclude any risks that are not detected through the screening methodology used in this case.
425. This Memorandum is limited to International Sanctions in force as of the date hereof; this Memorandum provides no opinion on the possibility or risks of any future changes in International Sanctions.
426. This Memorandum is delivered by DLA Piper as International Sanctions Legal Advisors to Ruichang. This Memorandum is provided for the purpose of the Offering (including, without limitation, any provision, disclosure, extraction and other use for the purpose of the Offering as required by the Company and/or the sponsor of the Offering) only.

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Yours faithfully

DLA Piper Singapore

For and on behalf of
DLA PIPER SINGAPORE PTE. LTD.

NATHAN BUSH

Partner

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