



# Zhejiang Ridge Outdoor Co., Ltd.

## Transfer Pricing Analysis Memo for Intra-Group cross-border transactions

Track Record Period - For the years ended 31<sup>st</sup> December 2022, 2023 and 2024 and eight months ended 31<sup>st</sup> August 2025

KPMG Advisory (China) Limited Hangzhou branch



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**Zhejiang Ridge Outdoor Co., Ltd.**

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

## **Contents**

<b>1</b>	<b>Abbreviation</b>	<b>2</b>
<b>2</b>	<b>Understanding of Facts and Scope of Work</b>	<b>3</b>
2.1	Understanding of Facts	3
2.2	Scope of Work	5
<b>3</b>	<b>Economic Analysis</b>	<b>6</b>
3.1	Industry Analysis	6
3.2	Value Chain Analysis	8
<b>4</b>	<b>Transfer Pricing Risk Evaluation</b>	<b>11</b>
4.1	Regulation Background	11
4.2	Selection and Application of Transfer Pricing Method	11
4.3	Conclusion	19
<b>5</b>	<b>Disclaimer</b>	<b>20</b>
	<b>Appendix I: Introduction on International Transfer Pricing Standard</b>	<b>22</b>
	<b>Appendix II: Introduction to Current Transfer Pricing Regulations</b>	<b>23</b>
	<b>Appendix III: Inter-Quartile Range of Comparable Sales Companies</b>	<b>25</b>



**Zhejiang Ridge Outdoor Co., Ltd.**

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

## 1 Abbreviation

Abbreviation	Full Name
The company, Zhejiang Ridge Outdoor	Zhejiang Ridge Outdoor Co., Ltd.
Solar UK	Solar Tackle Limited
Track Record Period	For the years ended 31 <sup>st</sup> December 2022, 2023 and 2024 and eight months ended 31 <sup>st</sup> August 2025
OECD Guidelines	The OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations
OECD	Organization for Economic Co-operation and Development



**Zhejiang Ridge Outdoor Co., Ltd.**

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction  
January 2026

## **2 Understanding of Facts and Scope of Work**

### **2.1 Understanding of Facts**

#### **2.1.1 Company Background**

Zhejiang Ridge Outdoor Co., Ltd., (“Zhejiang Ridge Outdoor”) established in June 2022, mainly engages in the research and development, innovation, manufacturing and marketing of outdoor fishing-related equipment. The product portfolio primarily encompasses high-quality fishing-related equipment (e.g. metal equipment and accessories, bags and tents) that offer reliable and well-designed outdoor solutions for resting, camping, storage, shelving and transportation to anglers of all skill levels.

Solar Tackle Limited (“Solar UK”), founded in April 2004, is a well-known British fishing-related brand company, mainly engages in the sales of outdoor fishing-related equipment. Solar UK was acquired in 2017.





**Zhejiang Ridge Outdoor Co., Ltd.**  
Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction  
January 2026

## **2.1.2 Information on Corporate Income Tax of Related Parties**

### **2.1.2.1 Information on Corporate Income Tax <sup>1</sup>**

The corporate income tax rates for the companies mentioned above show as follows.

Company Name	Corporate Income Tax Rate
Zhejiang Ridge Outdoor	25%
Solar UK	19%

### **2.1.2.2 Preferential Tax Treatment <sup>2</sup>**

Under the PRC CIT Law and its relevant regulations, 100% additional tax deduction is allowed for qualified research and development costs of Zhejiang Ridge Outdoor during the Track Record Period.

Solar UK, the Company's subsidiary incorporated in the United Kingdom is liable to England & Wales Profits tax at Small Profit Rate of 19%.

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<sup>1</sup> Prospectus of Ridge International Limited

<sup>2</sup> Prospectus of Ridge International Limited

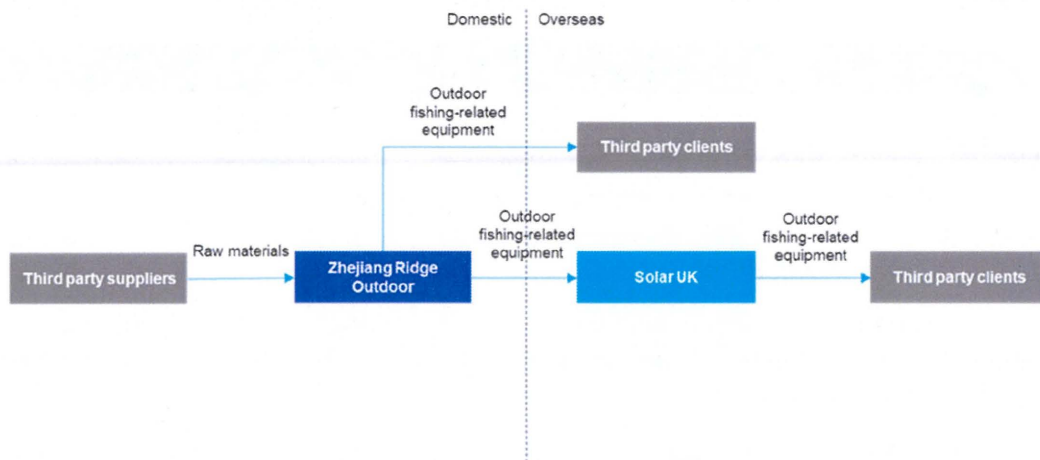


Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction  
January 2026

### 2.1.3 Description of Intra-Group cross-border transactions

The intra-Group cross-border transactions between Zhejiang Ridge Outdoor and Solar UK within the whole value chain during the Track Record Period was shown below.



## 2.2 Scope of Work

The company would like to involve KPMG China (hereinafter referred to as "we") to review the intra-Group cross-border transactions, i.e. Zhejiang Ridge Outdoor sold outdoor fishing-related equipment to Solar UK, from transfer pricing perspective during the Track Record Period, analyze whether the intra-Group cross-border transactions is in compliance with the arm's length principle, identify and quantify the potential transfer pricing risks (if any).



Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

## 3 Economic Analysis

### 3.1 Industry Analysis

#### 3.1.1 Introduction

Fishing equipment refers to tools and accessories used for catching fish in various water bodies, such as oceans, lakes, and rivers. The equipment can be broadly classified into two categories: tackle and gear. Tackle refers to the fishing rods, reels, lines, hooks, and lures, while gear includes accessories such as nets, waders, fish finders, and tackle boxes. The fishing equipment market is highly dependent on factors such as the popularity of recreational fishing, technological advancements in equipment design, and the availability of fish species.<sup>3</sup>

#### 3.1.1 Upstream and Downstream Industry Analysis

The upstream raw materials are mainly composed of metal materials, resin fibers, and polymer materials. The midstream mainly involves the manufacturing of aquaculture and fishing nets, tackle, and others. The downstream mainly refers to the application of fishing equipment.<sup>4</sup>



Therefore, we will focus on analyzing the performance of the fishing equipment industry in different markets.

<sup>3</sup> Source: Statista, <https://www.statista.com/outlook/cmo/toys-hobby/sports-equipment/fishing-equipment/united-kingdom#:~:text=The%20Fishing%20Equipment%20market%20in%20the%20United%20Kingdom,market%20with%20a%20revenue%20of%20US%246%2C199.0m%20in%202024.>

<sup>4</sup> Source: Xueqiu, <https://xueqiu.com/8666823409/306172251>





Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction  
January 2026

### 3.1.2 Global Market

The global fishing equipment market size was valued at USD 13.11 billion in 2022.<sup>5</sup> The global fishing equipment market was valued at USD 14.97 billion in 2023 and is estimated to reach approximately USD 22.64 billion by 2032, at a CAGR of 4.7% from 2024 to 2032.<sup>6</sup> Economic conditions, consumer tastes, environmental concerns, and technology improvements are some of the elements that impact the dynamics of the fishing tackle industry. Competition among industry participants is fueled by innovations in materials, manufacturing techniques, and product designs, which results in ongoing product improvement and differentiation. Due to consumer demand, manufacturers are now creating fishing gear that has as little of an impact on the environment as possible. Global events and changes in the economy can have an impact on consumer purchasing trends and market expansion. Market patterns are also influenced by laws and policies pertaining to conservation and fishing activities.<sup>7</sup>

### 3.1.3 China Market

At present, the fishing equipment market scale in China is huge and still in a growing process. The growth of the fishing equipment industry is mainly due to two aspects. On the one hand, the increasing demand for aquatic products of residents leads to the relatively stable fishing catch, stimulating the overall growth of the demand for fishing equipment. At the same time, with the growth of income level, the demand for entertainment of residents such as fishing continues to rise, and the gradual shift in product quality towards mid to high end products has driven the sustained growth of the industry market scale.<sup>8</sup> The export scale of China's fishing equipment has gradually increased in the past few years. Fishing equipment produced in China has certain competitive advantages in the international market due to reliable quality and price competitiveness. The main export destinations are concentrated in regions such as Asia, Europe, and North America.<sup>9</sup> The size of China's fishing equipment market in 2022 is CNY 29.52 billion<sup>10</sup>, and CNY 31.28 billion<sup>11</sup> in 2023. In 2024, the fishing equipment market in China is projected to generate a revenue of CNY 44.4 billion.<sup>12</sup>

### 3.1.4 The United Kingdom Market

The United Kingdom is experiencing a surge in demand for high-quality fishing equipment, driven by a growing interest in recreational fishing activities. The fishing equipment market in the United Kingdom generated a revenue of GBP 182.05 million in

<sup>5</sup> Source: Straits, <https://straitsresearch.com/report/fishing-equipment-market#:~:text=The%20global%20fishing%20equipment%20market%20size%20was%20valued,winch%2C%20aircraft%2C%20or%20support%20vessel%20employed%20in%20fishing.>

<sup>6</sup> Source: ECON, <https://www.econmarketresearch.com/industry-report/fishing-equipment-market#:~:text=The%20global%20fishing%20equipment%20market%20was%20valued%20at,for%20anglers%20with%20different%20preferences%20and%20ability%20levels.>

<sup>7</sup> Source: ECON, <https://www.econmarketresearch.com/industry-report/fishing-tackle-market/>

<sup>8</sup> Source: Xueqiu, <https://xueqiu.com/8666823409/247309873>

<sup>9</sup> Source: Zhiyan Advisory, <https://www.163.com/dy/article/l881L65A0552YGNW.html>

<sup>10</sup> Source: Xueqiu, <https://xueqiu.com/8666823409/247309873>

<sup>11</sup> Source: Xueqiu, <https://xueqiu.com/8666823409/306172251>

<sup>12</sup> Source: Statista, <https://www.statista.com/outlook/cmo/toys-hobby/sports-equipment/fishing-equipment/china>



**Zhejiang Ridge Outdoor Co., Ltd.**

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

2022, GBP 192.33 million in 2023 and GBP 199.84 million as of July 2024.<sup>13</sup> In terms of per capita income, the fishing equipment market sector in the United Kingdom generated GBP 2.94 per person in 2024. It is projected to experience an annual growth rate of 1.97% (CAGR 2024-2028).<sup>14</sup>

Despite the positive outlook for the UK equipment market, there are some challenges. First of all, with the intensification of market competition, companies need to continuously improve their competitiveness to attract more consumers. Secondly, due to the increasingly stringent environmental regulations, enterprises need to pay more attention to environmental protection in the production process, which may increase the operating costs of enterprises. Finally, due to the impact of global climate change, the United Kingdom's fishery resources may be affected to a certain extent, which may also have a certain impact on the fishing equipment market.<sup>15</sup>

## **3.2 Value Chain Analysis**

### **3.2.1 Overview of Value Chain Analysis**

Value chain analysis is a management analytical tool used to evaluate internal group individual activities such as procurement, production, sales, marketing, R&D and after-sale service. It aims to measure the importance of these activities in terms of the overall group value creation and reveal a group's competitive advantages.

The analysis and mapping of the costs and/or differentiation factors attributable to each entity throughout the value chain helps to measure if the transfer pricing outcomes are in line with value creating processes.

### **3.2.2 Function and Risk Analysis**

The functional analysis seeks to identify the economically significant activities and responsibilities, assets used or obtained, and risks assumed by the parties to the transactions. A functional analysis aims to determine how the business activities are organized within a multinational group and identify the value-added activities in the supply chain. The outcome of a functional analysis serves as a basis for characterizing the relevant intercompany transactions, which is a necessary step to determine an appropriate transfer pricing method.

The function and risk profiles of Zhejiang Ridge Outdoor and Solar UK within the intra-Group cross-border transactions are summarized in the table below:

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<sup>13</sup> Source: Statista, <https://www.statista.com/forecasts/1291015/fishing-articles-and-equipment-e-commerce-revenue-in-the-united-kingdom>

<sup>14</sup> Source: Statista, <https://www.statista.com/outlook/cmo/toys-hobby/sports-equipment/fishing-equipment/united-kingdom?currency=GBP>

<sup>15</sup> Source: Siluyinxiang, <https://www.zcqtz.com/news/2153267.html>





**Zhejiang Ridge Outdoor Co., Ltd.**

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

(O represent for bearing, X represent for not bearing, △ represents for limited bearing)

Summary of Function and Risk Profile		
Item	Zhejiang Ridge Outdoor	Solar UK
Function		
Research and Development ("R&D")	O	△
Procurement	O	O
Production	O	△
Sales and Marketing	X	O
After-sale Service	△	O
General Management and Administration	O	O
Risk		
R&D Risk	O	△
Raw Material Price Risk	O	O
Market Risk	O	O
Inventory Risk	O	O
Credit Risk	X	O
Product Liability Risk	△	O
Asset		
Intangible Asset	O	O
Tangible Asset	O	O

During the Track Record Period, Zhejiang Ridge Outdoor was mainly engaged in the research and development, innovation, manufacturing and marketing of outdoor fishing-related equipment. Regarding the intra-Group cross-border transactions, Zhejiang Ridge Outdoor conducted R&D, procurement, production, a certain level of after-sale service, general management and administration function, and bore R&D risk, raw material price risk, market risk, inventory risk and a certain level of product liability risk. Zhejiang Ridge Outdoor owned intangible asset for self-developed products and tangible asset for operation.

Solar UK, the wholly-owned subsidiary of Zhejiang Ridge Outdoor, was mainly engaged in the sales of fishing-related equipment products. During the Track Record Period, Solar UK purchased most of the fishing-related equipment from Zhejiang Ridge Outdoor, then sold to its third party customers. Solar UK also purchased part of the semi-products from third party suppliers, then assembled into products further selling to third party customers. Solar UK conducted a certain level of R&D, procurement, limited production, sales and marketing, after-sale service, general management and administration function, and bore a certain level of R&D risk, raw material price risk, market risk, inventory risk, product liability risk. Solar UK owned intangible asset for self-developed products and tangible asset for operation.

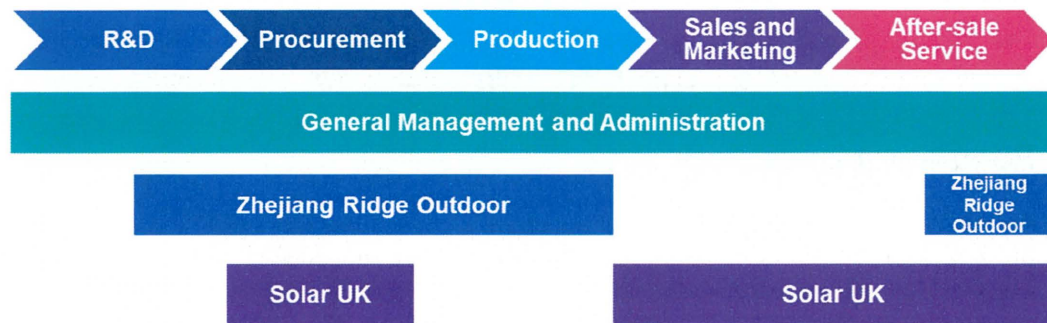


Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

### Function and Risk Profile within the Value Chain



The chart above describes the major position of Zhejiang Ridge Outdoor and Solar UK in the intra-Group cross-border transactions. Except for the major involvement within the value chain, Solar UK also conducted a certain level of R&D and assembling activities.

During the Track Record Period, Zhejiang Ridge Outdoor was the key risk-bearing entity in the value chain. Zhejiang Ridge Outdoor participated in multiple stages of value chain, including R&D, procurement, production, after-sale service, etc. As the shareholder, Zhejiang Ridge Outdoor was responsible for the management for Solar UK.

Under the high-level instructions provided by Zhejiang Ridge Outdoor, Solar UK sold fishing-related equipment products in the European market. Solar UK was a relatively independent distributor in the European market and established sales network independently, bearing relevant risks.





Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

## 4 Transfer Pricing Risk Evaluation

The transfer pricing analysis is conducted from China and the United Kingdom transfer pricing perspective, in order to evaluate the potential transfer pricing risks.

### 4.1 Regulation Background

Article 41 of Enterprise Income Tax Law of the People's Republic of China states, *Where the business transactions between an enterprise and its related parties do not comply with the independent transaction principle and reduce the taxable income amount of the enterprise or its related parties, the tax authorities shall have the right to make adjustment in accordance with reasonable methods.*

The United Kingdom is one of the OECD members. The OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (OECD Guidelines) are effectively imported into the United Kingdom transfer pricing legislation. Taxation (International and Other Provisions) Act 2010 (TIOPA 2010), the United Kingdom's transfer pricing legislation, provides expression of the arm's length principle which is in consistency with the OECD Guidelines.

### 4.2 Selection and Application of Transfer Pricing Method

#### 4.2.1 Selection of Transfer Pricing Method and Reasons

According to the OECD Guidelines, the comparable uncontrolled price method ("CUP method") compares the price charged for property or services transferred in a controlled transaction to the price charged for property or services transferred in a comparable uncontrolled transaction in comparable circumstances.<sup>16</sup> The CUP method is a particularly reliable method where an independent enterprise sells the same product as is sold between two associated enterprises.<sup>17</sup>

CUP comprises both internal CUP and external CUP. Internal CUP should be considered in the first place when applying CUP method. Based on the information provided by the management, Zhejiang Ridge Outdoor sold was engaged in similar sales of product transactions with third parties under similar circumstances. Therefore, the CUP method is selected to analyze whether the transfer pricing arrangements related to the intra-Group cross-border transactions were in compliance with the arm's length principle.

#### 4.2.2 Application of the CUP method

Base on the information provided by the management, Solar UK used to be a third party client before the acquisition. The pricing was determined based on cost plus.

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<sup>16</sup> OECD Guidelines, Section 2.14.

<sup>17</sup> OECD Guidelines, Section 2.24.



**Zhejiang Ridge Outdoor Co., Ltd.**

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

After the acquisition, the business model for Solar UK remained the same and the transfer pricing was determined based on cost plus. Zhejiang Ridge Outdoor treated Solar UK the same way as other third party customers. During the Track Record Period, Zhejiang Ridge Outdoor sold products to third party customers in the United Kingdom, and the pricing was also determined based on cost plus.

Based on the information provided by the management, we selected two sets of comparable third party transactions (i.e. Client A and Client B). The controlled transaction (i.e. the intra-Group cross-border transactions) and uncontrolled transactions (i.e. third party transactions with Client A and Client B) are comparable in the following aspects:

- Business model – Zhejiang Ridge Outdoor sold products to Client A, Client B and Solar UK for resale;
- Customer Market – Client A, Client B and Solar UK all operated in the United Kingdom and sold products in the European market;
- Brand Positioning – Fishing-related brands of Client A, Client B and Solar UK were all positioned as mid to high end brands;
- Product Category – Zhejiang Ridge Outdoor sold similar product categories with similar quality, including metal equipment and accessories, bags and tents, to Client A, Client B and Solar UK;
- Transaction Period – Zhejiang Ridge Outdoor had been the supplier for Client A, Client B and Soar Tackle for several years (and all covered the Track Record Period);
- Contract term – The contract terms were similar between controlled and uncontrolled transactions, e.g. the settlement currency, condition of transfer.

We have compared the weighted average gross margin obtained by Zhejiang Ridge Outdoor in the intra-Group cross-border transactions with that in the comparable third party transactions. According to the CUP analysis, the gross margin derived from intra-Group cross-border transactions during the Track Record Period was at 26.3%, which fell within the full range of the gross margin derived from comparable third party transactions, which ranges from 15.8% to 26.7%.

CUP Analysis Result – Zhejiang Ridge Outdoor's Gross Margin					
	FY2022	FY2023	FY2024	Eight months ended 31 August 2025	Weighted average
Products sold to Client A	27.7%	24.2%	23.1%	27.3%	26.7%
Products sold to Solar UK	32.9%	23.5%	25.4%	27.0%	26.3%
Products sold to Client B	9.4%	20.3%	16.7%	20.0%	15.8%





Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

### 4.2.3 Supplementary Test

Due to a limited number of samples under the CUP method, we conducted the supplementary test using the Transactional Net Margin Method (“TNMM”) to compare the profit level of Solar UK with comparable distributors.

#### 4.2.3.1 Selection of the Tested Party

The tested party needs to be determined when applying TNMM to analyze whether a related party transaction is conducted on an arm's length basis. Generally, the tested party will be the one with the less complex functional and risk profile, and that does not own unique intangible assets.

During the Track Record Period, Solar UK mainly purchased fishing-related equipment from Zhejiang Ridge Outdoor, then sold to its third party customers. Compared with Zhejiang Ridge Outdoor, the functions and risks of Solar UK in the intra-Group cross-border transactions were relatively simple. Therefore, Solar UK has been chosen as the tested party in this memo.

#### 4.2.3.2 Selection of Transfer Pricing Method and Reasons

According to the OECD Guidelines, TNMM examines the net profit relative to an appropriate base (e.g. costs, sales, assets) that a taxpayer realises from a controlled transaction.<sup>18</sup> TNMM generally applies to companies that do not own valuable intangibles. Related party transactions include transfer of ownership or use of tangible assets, transfer of use of intangible assets, and the service transactions.

TNMM relies much less on the consistency in accounting standards from various countries or regions or transaction similarities than abovementioned methods since it is applied on net profit level basis.

For the tested intra-Group cross-border transactions, it is relatively easy to obtain financial data of third party companies performing identical or similar functions and risks of distributors in public market.

Furthermore, TNMM provides greater flexibility since it can be applied by recourse to different profit level indicators, depending on the specific circumstances on the transaction and the tested party.

Therefore, TNMM is considered to be the appropriate method to supplementarily analyze whether the intra-Group cross-border transactions is in compliance with arm's length principle.

According to the transfer pricing policy of Solar UK and functions and risks assumed in the intra-Group cross-border transactions, we selected OM before financial expenses as

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<sup>18</sup> OECD Guidelines, Section 2.64



Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

the PLI to measure its transfer pricing policy of Solar UK under TNMM. The formula for OM before financial expenses is shown below:

- $OM = \text{Operating Profit before Interest and Taxes} / \text{Net Sales} \times 100\%$

Where,

- $\text{Operating Profit before Interest and Taxes} = \text{Net Sales} - \text{Cost of Sales} - \text{Tax and Surcharges} - \text{Operating Expenses} - \text{Administrative Expense}$

#### 4.2.3.3 *Use of Multiple-Year Data*

The OECD Guidelines also points out that, “multiple-year data is useful in providing information about the relevant business and product life cycles of the comparable companies. Differences in business or product life cycles may have a material effect on transfer pricing conditions and comparability. The data from earlier years may show whether the independent company engaged in a comparable transaction was affected by different economic environment, or whether different conditions in the earlier years materially affected its price or profit which makes the company no longer comparable.”<sup>19</sup>

Also, the use of multiple-year data (compared to single-year data) can avoid the data outliers caused by extraordinary items happened in that year. We selected multiple-year annual financial data to calculate the profit level of comparable enterprises.

#### 4.2.3.4 *Inter Quartile Range*

In order to make the comparability analysis more reliable by reducing the effect of extreme observations or “outliers”, we have established an inter quartile range based on the financial data of all the comparable companies. The inter quartile range is the range between the first quartile and the third quartile. The quartile represents the value of the variable on a particular percentage (first quartile = 25%, second quartile = 50% = median, third quartile = 75%). While there are several ways to determine the inter quartile range, this memo relies on the quartile function in Excel®.

#### 4.2.3.5 *Weighted Average Method*

To avoid significant differences caused by extraordinary events in a particular year, we first calculated the OM annually of each comparable company, then determined a comparable period weighted average OM of each comparable company. Finally, we used this comparable period average ratio to calculate the inter quartile range.

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<sup>19</sup> OECD Guidelines, Section 3.77.



Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

## 4.2.4 Comparability Analysis

### 4.2.4.1 *Searching Strategy*

KPMG China first conducts a preliminary search in the TP Catalyst platform for comparable companies by applying geographical and industry criteria and extract relevant financial data. Followed by a series of quantitative and qualitative screening, we have a final set of selected comparable companies that are similar to the tested party in terms of functions and risks. Please refer to below for specific screening criteria.

### 4.2.4.2 *Data Source*

KPMG China used the following databases and websites for this comparability analysis:

- TP Catalyst (February 2025 version): This database was developed by Bureau van Dijk and supported by the Orbis database. The data platform covers the financial data of more than 60,000 listed companies, including standardized financial data and specific items for transfer pricing analysis, as well as ownership structure, industry classification, and company business description.
- Factiva: This database provides financial and business information for over 20 million listed and non-listed companies worldwide, and offers a comprehensive overview of 1,145 main and sub industries.





**Zhejiang Ridge Outdoor Co., Ltd.**

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

#### **4.2.4.3 Industry Criterion**

TP Catalyst platform classifies companies according to the four-digit US Standard Industrial Classification Code ("SIC"). Business activities within the SIC system are categorized by functions such as manufacturing, wholesale distribution, services, etc. The first two digits of SIC represent different major industries whereas the latter two digits expand and differentiate the sub industries.

KPMG China examined the entire list of US SIC codes and chose the most appropriate codes to search for potentially comparable companies with broad and comparable functions undertaken by the tested enterprise in business operations. The chosen SIC codes are:

- 5021 - Furniture wholesale dealing in,
- 5023 - Home furnishings wholesale dealing in,
- 5031 - Lumber, plywood, millwork, and wood panels wholesale dealing in,
- 5032 - Brick, stone, and related construction materials wholesale dealing in,
- 5033 - Roofing, siding, and insulation materials wholesale dealing in,
- 5039 - Construction materials, not elsewhere classified wholesale dealing in,
- 5044 - Office equipment wholesale dealing in,
- 5046 - Commercial equipment not elsewhere classified wholesale dealing in,
- 5072 - Hardware wholesale dealing in,
- 5083 - Farm and garden machinery and equipment wholesale dealing in,
- 5091 - Sporting and recreational goods and supplies wholesale dealing in,
- 5092 - Toys and hobby goods and supplies wholesale dealing in,
- 5099 - Durable goods, not elsewhere classified wholesale dealing in,
- 5251 - Hardware stores,
- 7032 - Sporting and recreational camps.



Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction  
January 2026

#### 4.2.4.4 *Geographic Criterion*

In order to ensure the selected companies facing similar market conditions and general economic environments to the tested party, we restricted trading addresses of the comparable companies (based on the TP Catalyst platform record) to Global.

#### 4.2.4.5 *Keyword Criterion*

The criterion “keyword criterion (include)” is used in order to accept only companies whose trade descriptions or full overview texts include keywords indicating a comparable function and risk profile as well as the industrial environment and product portfolio.

In the case at hand, companies containing at least one of the following keywords or word stems in their trade description or full overview are included into the search:

- fishing

#### 4.2.4.6 *Data Sufficiency Criterion*

We required that comparable companies should have a continuous financial record of at least three consecutive years from FY2019 to FY2023 in order to decrease the possibility of data distortion from outliers.

#### 4.2.4.7 *Independent Criterion*

We excluded non-independent companies to ensure the uncontrolled nature of the comparable transactions. To conduct the step, we eliminated the companies which fell into categories other than “A”, “A+”, “A-”, “B”, “B+”, “B-” and “U”. (Other enterprises holding the proportion of less than 50% of the company, and it's not under the actual control of other enterprises business.)

#### 4.2.4.8 *Continuous Losses Criterion*

We also eliminated companies with three consecutive years of financial losses from comparable tested period, as these companies may have experienced unique circumstances which would significantly affect their profit level.

#### 4.2.4.9 *Qualitative Screening*

KPMG China reviewed the business descriptions and annual reports of all remaining companies and visited relevant websites to eliminate companies with functions and risks significantly different from tested party such as:

- Companies that undertake significantly different functions from those of the tested party,
- Companies that sell significantly different products from those of the tested party,
- Companies that are going through unique circumstances and business issues.

After the above screening process, KPMG China has selected 9 comparable companies. The arm's length range of weighted-average OM of FY2019 – FY2023 for the





#### Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

comparable companies was -1.9% to 10.6%, the interquartile range was 1.6% to 4.9%, with a median of 1.8%.

Inter Quartile Range of PLI of Comparable Companies <sup>20</sup>						
	2019	2020	2021	2022	2023	Weighted Average
Maximum	5.0%	8.9%	16.5%	13.2%	11.0%	10.6%
75 <sup>th</sup> Percentile	3.7%	7.4%	11.7%	4.1%	3.2%	4.9%
Median	1.2%	3.5%	5.3%	3.3%	1.6%	1.8%
25 <sup>th</sup> Percentile	-1.1%	-0.3%	4.8%	2.0%	-1.2%	1.6%
Minimum	-2.3%	-1.3%	0.8%	-7.0%	-12.1%	-1.9%

#### 4.2.5 Special Factor Analysis

According to the OECD Guidelines, when using various arm's length principles, to make such comparisons, taxpayers and tax administrations need first to have identified the economically relevant characteristics of the controlled transaction. As set out in Chapter III, *differences in economically relevant characteristics between the controlled and uncontrolled arrangements need to be taken into account when establishing whether there is comparability between the situations being compared and what adjustments may be necessary to achieve comparability.*<sup>21</sup> Comparative analysis can only be carried out after adjustment.

According to another provision of the OECD Guidelines, may not account for situations where a taxpayer's profits are increased or reduced by a factor unique to that taxpayer. In such a case, the range may not include points representing the profits of independent.<sup>22</sup> Considering the tested company's falling profits is the result of inherent factor and it is difficult to lower comparable companies' arm's length range, exclusion of non-transfer pricing factors of the tested company is deemed appropriate.

The figures from the European Outdoor Group's (EOG) State of Trade market research program indicate that the outdoor sector has bounced back strongly following the height of the COVID pandemic.<sup>23</sup> Sustaining that boom in participation will be tough and along with ongoing supply chain issues and the increasing cost of living.<sup>24</sup> In recent years, the growth of outdoor equipment market is showing signs of slowing down due to the lack of needs and inflation. Considering this situation, we selected the period for the years

<sup>20</sup> Refer to Appendix III for details

<sup>21</sup> OECD Guidelines, Section 1.39

<sup>22</sup> OECD Guidelines, Section 2.79

<sup>23</sup> Source: <https://www.europeanoutdoorgroup.com/articles/latest-european-outdoor-group-trade-data-indicates-strong-growth-in-2021>

<sup>24</sup> Source: <https://www.ispo.com/en/outdoor/europes-outdoor-industry-strengthened-face-new-challenges>



**Zhejiang Ridge Outdoor Co., Ltd.**

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

ended 31<sup>st</sup> December 2020, 2021, 2022, 2023 and 2024 and eight months ended 31<sup>st</sup> August 2025 when conducting the supplementary test.

Beginning in early 2020, the COVID-19 pandemic disrupted maritime shipping and air freight services, leading to canceled sailings and flights, port delays, and container shortages. The shipping and air freight costs have experienced a particularly sharp rise since 2020, and resulted in a significant increase in FY2021 and FY2022 cost of Solar UK, which affected the final profit level. Solar UK didn't have the ability to make adjustment to respond to this abnormal situation in a timely manner.

Therefore, we adjusted the freight in FY2021 and FY2022 according to the proportion of freight in turnover under normal operation (the average of FY2020, FY2023, FY2024 and eight months ended 31<sup>st</sup> August 2025) to restore the profit level of Solar UK under normal freight.

According to the TNMM analysis, the weighted average OM of Solar UK from FY2020 to eight months ended 31<sup>st</sup> August 2025 after special factor adjustment was 3.7%, which fell within the inter quartile range of the OM derived from the comparable companies, ranging from 1.6% to 4.9%.

### **4.3 Conclusion**

For transfer pricing mechanism, during the Track Record Period, the transfer pricing policy for Zhejiang Ridge Outdoor to sell products to Solar UK was on a cost plus basis, which was in accordance with market practice.

According to the CUP analysis, the gross margin derived from intra-Group cross-border transactions during the Track Record Period were at 26.3%, which fell within the full range of the gross margin range derived from comparable third party transactions, which ranges from 15.8% to 26.7%.

We also conducted TNMM analysis as a supplementary test. According to the TNMM analysis, the weighted average OM of Solar UK from FY2020 to eight months ended 31<sup>st</sup> August 2025 after special factor adjustment was 3.7%, which fell within the inter quartile range of the OM derived from the comparable companies, ranging from 1.6% to 4.9%.

Therefore, based on the instructions of the OECD Guidelines, we are of the view that the transfer pricing arrangements of the tested intra-Group cross-border transactions were consistent with the arm's length principle.





Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

## 5 Disclaimer

This advice is prepared based on the information, documentation and representations provided to us by you. In this connection, we have not reviewed or verified any information, documentation or representations provided by you for the purposes of preparation of this advice to establish the correctness of those facts. We do not accept responsibility for such information, documentation and representations which remain your responsibility and we shall not be held responsible if information which may have a material impact on this advice is not made available to us. Where the relevant documents are not available or inadequate, certain assumptions have been made and these have been highlighted as appropriate. We would mention that if any of the information or assumptions are not entirely complete or accurate, our advice may not be valid, correct or appropriate. Therefore, we would be grateful for your advice if our understanding of the facts is not correct.

The advice expressed above is rendered only with respect to the specific matters discussed therein. We express no opinions with respect to any other tax, accounting or legal matter.

We wish to specifically point out that the relevant PRC and the United Kingdom laws, rules and regulations are often unclear or there are interpretational conflicts among the relevant authorities. Our advice is based on our experience and best effort to understand the current status of the law. We would also like to point out that there is currently no centralised register or other official source in the PRC and the United Kingdom where all legislation enacted by central and provincial authorities is made available to the public. Legislation or regulations, particularly for local applications, can be enacted without any prior notice or subsequent publicity. Accordingly, you should appreciate that we may not be aware of the existence of certain new legislation, or amendments to existing legislation, and their potential effect on this advice. Unless requested by you and agreed by KPMG, we will not be responsible for updating this report, after its issuance.

Further, tax legislation and regulations are subject to the interpretation of the relevant authorities or officials and although we believe that the conclusions in this advice are correct at the time of issuance, based on the research and analysis set forth herein, we cannot in any way warrant or guarantee that the tax authorities or officials will ultimately come to the same conclusions regarding the tax consequences of the transaction(s) discussed.

In addition, please note that our comments in this advice are based on the interpretation and application of the relevant PRC and the United Kingdom tax legislation and practices prevailing at the time we prepare this advice. As you will appreciate, tax legislation, practices and interpretation are subject to change or modification retroactively and/or prospectively. In the circumstances, no assurance can be given that tax legislation and practices will not be modified, revoked, supplemented, revised or overruled, or that any such change will not adversely affect the tax consequences addressed in this advice. We are not required to and will not update this advice to take into account any changes in law or practice which may come into effect after the date of our advice.



**Zhejiang Ridge Outdoor Co., Ltd.**

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction  
January 2026

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Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

## Appendix I: Introduction on International Transfer Pricing Standard

Item	Brief Introduction
Arm's Length Principle	<p>OECD member countries agree that the arm's length principle is an international transfer pricing standard that multinational corporations and tax administrations should follow for tax purposes. Meanwhile, many non-member countries also adopt this principle to formulate or implement transfer pricing regulations.</p> <p>The authoritative statement of the arm's length principle is found in paragraph 1 of Article 9 of the OECD Model Tax Convention, which forms the basis of bilateral tax treaties involving OECD member countries and an increasing number of non-member countries. Article 9 provides:</p> <p>Where conditions are made or imposed between the two associated enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly.</p>
Introduction to OECD Guidelines	<p>The arm's length principle adopted in the OECD Guidelines has been agreed upon by OECD member countries as an international transfer pricing standard for evaluating related party transaction pricing. Since the first edition of the OECD Guidelines was published by the OECD in 1979, the OECD Committee on Fiscal Affairs has supplemented and revised the Guidelines in 1995, 1996, and 1997. Following the release of the 2017 edition, the OECD has once again comprehensively updated the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations in 2022.</p> <p>OECD member countries are encouraged to follow these Guidelines in their domestic transfer pricing practices, and taxpayers are encouraged to follow these Guidelines in evaluating for tax purposes whether their transfer pricing complies with the arm's length principle.</p> <p>According to these Guidelines, if independent enterprises engage in similar and comparable transactions under comparable circumstances, it can be proven that the tested related party transactions comply with the arm's length principle.</p> <p>When adopting arm's length principle for related party transactions pricing, the key is whether it is possible to identify comparable transactions between independent enterprises engaged in the comparable transactions under similar conditions. The OECD Guidelines have multiple methods for pricing different types of related party transactions, including transactions of goods, services, technical assistance, trademarks, and other assets.</p>





Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

## Appendix II: Introduction to Current Transfer Pricing Regulations

	Laws and Regulations
<p><b>Background Introduction</b></p>	<p>In recent years, transfer pricing has gradually become a tax focus being concerned by Chinese and the United Kingdom enterprises. From the perspective of tax authorities, transfer pricing is taken as a tool by some enterprises, especially foreign-invested enterprises, to reduce tax burden and transfer profits obtained locally to foreign countries. Therefore, tax authorities continue to strengthen their supervision in transfer pricing, implementing strict transfer pricing investigations and profit adjustments. For enterprises, the adverse consequences of investigations include an increase in tax burden, a shortened period of tax incentives, and even being imposed severe fines and interest.</p> <p>Laws and regulations related to transfer pricing in China and the United Kingdom are based on the arm's length principle and are formulated in accordance with the OECD Guidelines, having their own uniqueness due to the current economic and political environment locally.</p>
<p><b>Laws and regulations related to transfer pricing in China</b></p>	<p>At present, the laws and regulations related to transfer pricing in China mainly include:</p> <ul style="list-style-type: none"> <li>✓ "Corporate Income Tax Law of the People's Republic of China" and "Implementation Regulations for the Corporate Income Tax Law of the People's Republic of China",</li> <li>✓ "Law of the People's Republic of China on the Administration of Tax Collection" and "Implementation Regulations for the Law of the People's Republic of China on Administration of Tax Collection",</li> <li>✓ "Notice of State Administration of Taxation on Issues on Treatment of Corporate Income Tax Pertaining to Fees Paid for Provision of Services between Parent Company and Subsidiary" (Guo Shui Fa (2008) 86),</li> <li>✓ "Notice of the State Administration of Taxation on Issuing the List of Designated Contact Enterprises of the State Administration of Taxation" (Guo Shui Han [2008] No. 1064),</li> <li>✓ "Implementation Measures for Special Tax Adjustment (Trial Implementation)" (Guo Shui Fa [2009] No. 2),</li> <li>✓ "Administrative Measures on General Anti-Tax Avoidance (Trial Implementation)" (State Administration of Taxation Order No. 32),</li> <li>✓ "Notice of the General Office of the State Administration of Taxation on the Anti-tax Evasion Investigation of Outbound Payment of Large-amount Expenses" (Shui Zong Ban Fa [2014] No.146),</li> <li>✓ "Announcement of the State Administration of Taxation on Standardising Administration of Cost-sharing Agreements" (State Administration of Taxation Announcement [2015] No. 45),</li> <li>✓ "Announcement of the State Administration of Taxation on Matters Relating to Improved Administration of Related Party Declarations and Contemporaneous Documentation" (State Administration of Taxation Announcement [2016] No. 42),</li> <li>✓ "Announcement of the State Administration of Taxation on Improvements to Matters Relating to Administration of Advance Pricing Agreement" (State Administration of Taxation Announcement [2016] No. 64),</li> <li>✓ "Announcement of the State Administration of Taxation on Promulgation of the Administrative Measures on Special Tax</li> </ul>



Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

	Laws and Regulations
	<p>Investigation, Adjustment and Mutual Agreement Procedure" (State Administration of Taxation Announcement [2017] No. 6),</p> <ul style="list-style-type: none"><li>✓ "Announcement of the State Administration of Taxation on Clarifying Matters Concerning the Provision and Management of Master Files of Contemporaneous Documentation" (Announcement [2018] No.14 of the State Administration of Taxation),</li><li>✓ "Announcement of State Taxation Administration on Matters Relating to Application of Summary Procedures for Unilateral Advance Pricing Arrangements" (State Taxation Administration Announcement [2021] No. 24)</li></ul>
<b>Laws and Regulations related to transfer pricing in the United Kingdom</b>	<p>At present, the laws and regulations related to transfer pricing in the United Kingdom mainly include:</p> <ul style="list-style-type: none"><li>✓ Taxation (International and Other Provisions) Act 2010,</li><li>✓ Income and Corporation Taxes Act 1988</li><li>✓ Finance Act 2015</li><li>✓ Finance Bill 2022-23</li></ul>







Zhejiang Ridge Outdoor Co., Ltd.

Transfer Pricing Analysis Memo for Intra-Group Cross-border Transaction

January 2026

## Appendix III: Inter-Quartile Range of Comparable Sales Companies

Inter Quartile Range of PLI of Comparable Companies							
No	Company Name	2019	2020	2021	2022	2023	WA OM
1	ACADEMY SPORTS & OUTDOORS INC	3.7%	7.4%	13.4%	13.2%	11.0%	10.2%
2	ANGLING DIRECT PLC	-2.3%	2.2%	4.8%	1.1%	1.6%	1.7%
3	BIG 5 SPORTING GOODS CORPORATION	1.5%	7.1%	11.7%	3.4%	-1.2%	4.9%
4	DICK'S SPORTING GOODS, INC.	5.0%	7.7%	16.5%	11.8%	9.9%	10.6%
5	HIMARAYA CO.,LTD.	1.2%	-0.9%	3.2%	3.3%	1.3%	1.6%
6	SILLA CO.,LTD.	-1.1%	-1.3%	4.9%	3.3%	3.2%	1.8%
7	SPORTSMAN'S WAREHOUSE HOLDINGS INC	3.8%	8.9%	6.7%	4.1%	-2.0%	4.5%
8	XXL ASA	-1.7%	3.5%	5.3%	-7.0%	-12.1%	-1.9%
9	ZETT CORPORATION	0.6%	-0.3%	0.8%	2.0%	1.7%	1.0%
Maximum		5.0%	8.9%	16.5%	13.2%	11.0%	10.6%
75 <sup>th</sup> Percentile		3.7%	7.4%	11.7%	4.1%	3.2%	4.9%
Median		1.2%	3.5%	5.3%	3.3%	1.6%	1.8%
25 <sup>th</sup> Percentile		-1.1%	-0.3%	4.8%	2.0%	-1.2%	1.6%
Minimum		-2.3%	-1.3%	0.8%	-7.0%	-12.1%	-1.9%