
APPENDIX III

TAXATION AND FOREIGN EXCHANGE

TAXATION OF SECURITY HOLDERS

The income tax and capital gains tax of H-share holders shall be governed by the laws and practices of China and the jurisdictions where the H-share holders reside, or other tax regulations. The following summary of certain relevant tax regulations is based on the current laws and practices, without taking into account the expected changes or amendments to the relevant laws and policies and does not constitute any opinion or advice. The following discussion does not cover all possible tax consequences of [REDACTED], nor does it take into account the specific circumstances of any individual investor, some of which may be subject to special rules. Therefore, you should consult your own tax advisors on the tax consequences of [REDACTED]. The relevant discussion is made based on the laws and relevant interpretations effective as of the Latest Practicable Date, and all laws and relevant interpretations may change and may have retrospective effect.

Any tax issues in Mainland China or Hong Kong, China, other than income tax, capital appreciation and profits tax, business tax/value-added tax, stamp duty and estate duty, have not been referred in the discussion. Potential investors are strongly advised to consult their financial advisors regarding the tax consequences in China, Hong Kong and other jurisdictions relating to the ownership and disposal of H Shares.

The PRC Taxation

Taxation on Dividends

Individual Investor

Pursuant to the *Individual Income Tax Law of the PRC* (《中華人民共和國個人所得稅法》), which was most recently amended on August 31, 2018 and the *Implementation Provisions of the Individual Income Tax Law of the PRC* (《中華人民共和國個人所得稅法實施條例》), which was most recently amended on December 18, 2018 (hereinafter collectively referred to as the “**PRC IIT Law**”), dividends distributed by PRC enterprises are subject to individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from an enterprise in the PRC is normally subject to individual income tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by relevant tax treaty.

Pursuant to *Notice on Matters Concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No.045* (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued and implemented by the SAT on June 28, 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends to overseas resident individuals in the jurisdiction of the tax treaty, withhold individual income tax at the rate of 10%. When a tax rate of 10% is not applicable, the withholding company shall: (a) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%; (b) withhold such foreign individual income tax at the effective tax rate agreed on if the applicable tax rate is between 10% and 20%; or (c) withhold such foreign individual income tax at a rate of 20% if no taxation treaty is applicable.

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Meanwhile, pursuant to the *Notice on Issues Concerning the Differentiated Individual Income Tax Policies on Dividends and Bonuses of Listed Companies* (《關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》) promulgated by the MOFCOM, the SAT and the CSRC on September 7, 2015 and came into effect on September 8, 2015, where an individual acquires the stocks of [REDACTED] companies from the market of [REDACTED] and transfer of stock, to the extent that the holding period is over one year, the income from the dividends and bonuses thereof are temporarily exempted from individual income tax. Where an individual acquires the stocks of [REDACTED] companies from the market of [REDACTED] and transfer of stock, to the extent that the holding period is one month or less (one month inclusive), the income from dividends thereof shall be included in the taxable income in full amount; and to the extent that the holding period is more than one month and up to one year (one year inclusive), the incomes from the dividends thereof shall be included in the taxable income at a tax rate of 50%. The aforesaid income is subject to an individual income tax at a flat rate of 20%.

Pursuant to the *Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income* (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) issued on August 21, 2006, effective on December 8, 2006, if the beneficial owner directly holds at least 25% of the equity capital in a PRC company, a withholding tax at the rate of 5% shall be paid in connection with the dividend paid by the PRC company to such Hong Kong tax resident; while if the beneficial owner directly holds less than 25% of the equity capital in a PRC company, a withholding tax at the rate of 10% shall be paid in connection with the dividend paid by the PRC company to such Hong Kong tax resident.

Enterprise Investor

In accordance with *Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法》), or the PRC EIT Law, and the *Implementation Regulations on the Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法實施條例》), the rate of enterprise income tax shall be 25%. A non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income (including dividends received from a PRC resident enterprise that issues shares in Hong Kong), if it does not have an establishment or premise in the PRC or has an establishment or premise in the PRC but its PRC-sourced income has no real connection with such establishment or premise. The aforesaid income tax payable for non-resident enterprises are deducted at source, where the payer of the income is required to withhold the income tax from the amount to be paid to the non-resident enterprise.

The *Circular of the State Administration of Tax on Issues Relating to the Withholding and Remitting of Enterprise Income Tax by PRC Resident Enterprises on Dividends Distributed to Overseas Non-Resident Enterprise Shareholders of H Shares* (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》), which was issued and implemented by the SAT on November 6, 2008, further clarified that a PRC-resident enterprise must withhold enterprise income tax at a rate of 10% on the dividends of 2008 and onwards that it distributes to overseas non-resident enterprise shareholders of H Shares.

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Pursuant to the *Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income* (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) issued on August 21, 2006, effective on December 8, 2006, the Chinese Government may levy taxes on the dividends paid by a Chinese company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of the total dividends payable by the Chinese company unless a Hong Kong resident directly holds 25% or more of the equity interest in a Chinese company, then such tax shall not exceed 5% of the total dividends payable by the Chinese company. *The Fifth Protocol of the Arrangement between the Mainland of PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion* (《第五議定書》), which came into effect on December 6, 2019, adds a criteria for the qualification of entitlement to enjoy treaty benefits. Although there may be other provisions under the Arrangement, the treaty benefits under the criteria shall not be granted in the circumstance where relevant gains, after taking into account all relevant facts and conditions, are reasonably deemed to be one of the main purposes for the arrangement or transactions which will bring any direct or indirect benefits under this Arrangement, except when the grant of benefits under such circumstance is consistent with relevant objective and goal under the Arrangement. The application of the dividend clause of tax agreements is subject to the requirements of PRC tax law and regulation, such as the *Notice on Several Issues Concerning the Implementation of Dividend Clauses in Tax Treaties* (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》).

Tax Treaties

Non-resident investors residing in jurisdictions which have entered into treaties or adjustments for the avoidance of double taxation with the PRC might be entitled to a reduction of the Chinese corporate income tax imposed on the dividends received from PRC companies. The PRC currently has entered into Avoidance of Double Taxation Treaties or Arrangements with a number of countries and regions including Hong Kong Special Administrative Region, Macau Special Administrative Region, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant taxation treaties or arrangements are required to apply to the Chinese tax authorities for a refund of the corporate income tax in excess of the agreed tax rate, and the refund application is subject to approval by the Chinese tax authorities.

Pursuant to the *Administrative Measures on Entitlement of Non-resident Taxpayers to Preferential Treatment under Tax Treaties* (《非居民納稅人享受協定待遇管理辦法》), which was promulgated by the SAT on October 14, 2019 and became effective on January 1, 2020, non-resident taxpayers are entitled to preferential treatment under the tax treaties through self-determination, self-declaration and keeping and documenting relevant information for inspection. Where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding declaration through a withholding agent, simultaneously gather and retain the relevant materials pursuant to the regulations for future inspection and be subject to subsequent administration by tax authorities.

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Taxation on Share Transfer

VAT and Local Additional Tax

Pursuant to the *Notice on Fully Implementing the Pilot Reform for the Transition from Business Tax to VAT* (《關於全面推開營業稅改徵增值稅試點的通知》), or the Circular 36, which was implemented on May 1, 2016, entities and individuals engaged in the services sale in the PRC are subject to VAT and “engaged in the services sale in the PRC” means that the seller or buyer of the taxable services is located in the PRC. Circular 36 also provides that transfer of financial products, including transfer of the ownership of marketable securities, shall be subject to VAT at 6% on the taxable revenue (which is the balance of sales price upon deduction of purchase price), for a general or a foreign VAT taxpayer. However, individuals who transfer financial products are exempt from VAT, which is also provided in the *Notice of Ministry of Finance and State Administration of Taxation on Several Tax Exemption Policies for Business Tax on Sale and Purchase of Financial Commodities by Individuals* (《財政部、國家稅務總局關於個人金融商品買賣等營業稅若干免稅政策的通知》) effective on January 1, 2009. According to these regulations, if the holder is a non-resident individual, the PRC VAT is exempted from the sale or disposal of H shares; if the holder is a non-resident enterprise and the H-share buyer is an individual or entity located outside China, the holder is not necessarily required to pay the PRC VAT, but if the H-share buyer is an individual or entity located in China, the holder may be required to pay the PRC VAT. However, it is still uncertain whether the non-Chinese resident enterprises are required to pay the PRC VAT for the disposal of H shares in practice.

At the same time, VAT payers are also required to pay urban maintenance and construction tax, education surtax and local education surcharge (hereinafter collectively referred to as “**Local Additional Tax**”), which shall be usually subject to 12% of the VAT payable (if any).

Income tax

Individual Investors

According to the PRC IIT Law, gains on the transfer of equity interests in the PRC resident enterprises are subject to individual income tax at a rate of 20%. Pursuant to the Circular on Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from the Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) issued by the Ministry of Finance (the “**MOF**”) and the SAT on March 30, 1998, from January 1, 1997, income of individuals from transfer of the shares of [REDACTED] enterprises continues to be exempted from individual income tax.

According to the *Announcement of the Ministry of Finance and the State Taxation Administration about the Catalog of Preferential Individual Income Tax Policies with Continued Effect* (《財政部、國家稅務總局關於繼續有效的個人所得稅優惠政策目錄的公告》) which was promulgated by the MOF and the SAT and became effective on December 29, 2018, the *Circular Declaring that Individual Income Tax Continues to Be Exempted over Individual Income from Transfer of Shares* (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) will remain effective.

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Enterprise Investors

In accordance with the PRC EIT Law, a non-resident enterprise is generally subject to enterprise income tax at the rate of a 10% on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or premise in the PRC or has an establishment or premise in the PRC but its PRC-sourced income has no real connection with such establishment or premise. Such income tax payable for non-resident enterprises are deducted at source, where the payer of the income is required to withhold the income tax from the amount to be paid to the non-resident enterprise. Such tax may be reduced or exempted pursuant to relevant tax treaties or agreements on avoidance of double taxation.

Stamp Duty

Pursuant to the *Stamp Duty Law of the PRC* (《中華人民共和國印花稅法》), which was issued on June 10, 2021 and came into effect on July 1, 2022, PRC stamp duty only applies to specific taxable document executed or received within the PRC, having legally binding force in the PRC and protected under the PRC laws, thus the requirements of the stamp duty imposed on the transfer of shares of PRC [REDACTED] companies shall not apply to the acquisition and disposal of H Shares by non-PRC investors outside of the PRC.

Estate Duty

As of the date of this document, no estate duty has been levied in the PRC under the PRC laws.

MAJOR TAXATION OF OUR COMPANY IN THE PRC

Enterprise Income Tax

According to the *Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法》), within the territory of the PRC, the enterprises and other organizations that have incomes are taxpayers of enterprise income tax and shall pay enterprise income tax in accordance with this law.

Enterprises are classified into resident and non-resident enterprises. An enterprise established in the PRC or established outside of the PRC but having its actual management body in the PRC is a resident enterprise for PRC enterprise income tax purpose and shall pay enterprise income tax at the rate of 25% on its income derived from within and outside the PRC. A non-resident enterprise that does not have an establishment or place of business in the PRC, or has an establishment or place of business in the PRC but the income has no actual connection to such establishment or place of business, shall pay enterprise income tax at the rate of 20% on its income derived from within the PRC, which shall be withheld at source by the payer. Meanwhile, any gains realized on the transfer of shares by non-resident enterprises are subject to enterprise income tax by way of withholding if such gains are regarded as income derived from the transfer of property within the PRC.

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Value-Added Tax

Pursuant to the *Provisional Regulations of the PRC on Value-Added Tax* (《中華人民共和國增值稅暫行條例》), amended by the State Council and effective on 19 November 2017, and the *Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-Added Tax* (《中華人民共和國增值稅暫行條例實施細則》), amended by the MOF on 28 October 2011 and effective on 1 November 2011, entities and individuals that sell goods or provide processing, repair and maintenance services, or import goods within the territory of the PRC are taxpayers of value-added tax, and shall pay VAT in accordance with these regulations and rules. For taxpayers selling or importing goods, the VAT rate is generally 17% unless otherwise specified in the aforesaid regulations.

According to the *Notice of the MOF and the State Administration of Taxation on Adjusting to VAT Rates* (《財政部、稅務總局關於調整增值稅稅率的通知》), promulgated on 4 April 2018, and effective as of 1 May 2018, the VAT rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively.

According to the *Announcement of the MOF, the State Administration of Taxation and General Administration of Customs on Relevant Policies for Deepening Value-Added Tax Reform* (《財政部 稅務總局 海關總署關於深化增值稅改革有關政策的公告》), promulgated on 20 March 2019 and effective on 1 April 2019, the VAT rates of 16% and 10% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 13% and 9%, respectively.

FOREIGN EXCHANGE

The lawful currency of the PRC is Renminbi, which cannot be freely converted into foreign currency. The State Administration of Foreign Exchange (the “SAFE”), with the authorization of the People’s Bank of China (the “PBOC”), is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

The *Foreign Exchange Administration Regulations of the PRC* (《中華人民共和國外匯管理條例》), which was issued by the State Council on January 29, 1996, implemented on April 1, 1996 and latest amended on August 5, 2008, classifies all international payments and transfers into current account items and capital account items. Current account items are subject to the reasonable examination of the veracity of transaction documents and the consistency of the transaction documents and the foreign exchange receipts and payments by financial institutions engaging in settlement and sale of foreign currencies and supervision and inspection by the foreign exchange administrative authorities. For capital account items, overseas organizations and overseas individuals making direct investments in China shall, upon approval by the relevant authorities in charge, process registration formalities with the foreign exchange administrative authorities. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities.

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In the event that international revenues and expenditure occur or may occur a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard and control measures on international revenues and expenditure.

The *Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange* (《結匯、售匯及付匯管理規定》), which was promulgated by the PBOC on June 20, 1996 and implemented on July 1, 1996, removes other restrictions on convertibility of foreign exchange under current account items, while imposing existing restrictions on foreign exchange transactions under capital account items.

According to the *Announcement on Improving the Reform of the Renminbi Exchange Rate Formation Mechanism* (《關於完善人民幣匯率形成機制改革的公告》), which was issued by the PBOC and implemented on July 21, 2005, the PRC has started to implement a managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and adjusted with reference to a basket of currencies since July 21, 2005. Therefore, the Renminbi exchange rate was no longer pegged to the U.S. dollar. PBOC would publish the closing price of the exchange rate of the Renminbi against trading currencies such as the U.S. dollar in the interbank foreign exchange market after the closing of the market on each working day, as the central parity of the currency against Renminbi transactions on the following working day.

According to the relevant laws and regulations in the PRC, PRC enterprises (including foreign investment enterprises) which need foreign exchange for current account item transactions may, without the approval of the foreign exchange administrative authorities, effect payment through foreign exchange accounts opened at the designated foreign exchange bank, on the strength of valid transaction receipts and proof. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange (such as our Company) may, on the strength of resolutions of the board of directors or the shareholders’ meeting on the distribution of profits, effect payment from foreign exchange accounts at the designated foreign exchange bank, or effect exchange and payment at the designated foreign exchange bank.

According to the *Notice on Relevant Issue Concerning the Administration of Foreign Exchange for Overseas Listing* (《關於境外上市外匯管理有關問題的通知》) issued by the SAFE and implemented on December 26, 2014, a domestic company shall, within 15 business days from the date of the end of its overseas listing issuance, register the overseas listing with the local branch office of state administration of foreign exchange at the place of its establishment; the [REDACTED] from an overseas listing of a domestic company may be remitted to the domestic account or deposited in an overseas account, but the use of the [REDACTED] shall be consistent with the content of the public disclosure documents.

According to the *Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment* (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), which was issued by the SAFE on February 13, 2015, came into effect on June 1, 2015 and partially repealed on December 30, 2019, the confirmation of foreign exchange registration under domestic direct investment and the

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confirmation of foreign exchange registration under overseas direct investment shall be directly examined and handled by banks. SAFE and its branch offices shall indirectly regulate the foreign exchange registration of direct investment through banks.

According to the *Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts* (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) which was promulgated by the SAFE and implemented on June 9, 2016, foreign currency earnings in capital account that relevant policies of willingness exchange settlement have been clearly implemented on (including the recalling of raised capital by overseas listing) may undertake foreign exchange settlement in the banks according to actual business needs of the domestic institutions. The tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjustment of the SAFE in due time in accordance with international revenue and expenditure situations.

On October 23, 2019, the SAFE issued the *Circular of the State Administration of Foreign Exchange on Further Promoting Cross-border Trade and Investment Facilitation* (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), which stipulated that on the basis that investing foreign-funded enterprises may make domestic equity investments with their capital funds in accordance with laws and regulations, non-investing foreign-funded enterprises are permitted to legally make domestic equity investments with their capital funds under the premise that the existing *Special Administrative Measures (Negative List) for the Access of Foreign Investment* (《外商投資准入特別管理措施(負面清單)》) are not violated and domestic invested projects are true and compliant.