
APPENDIX III

TAXATION AND FOREIGN EXCHANGE

TAXATION AND FOREIGN EXCHANGE

1. Taxation of Security Holders

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of H Shares are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current laws and practices in effect, and constitutes no predictions of changes or adjustments to relevant laws or policies or any advice or suggestions thereunder. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares or take into account the specific circumstances of any particular investor, some of which may be subject to special rules. Accordingly, investors should consult their own tax adviser regarding the taxation of an investment in the H Shares. The discussion is based upon current laws and relevant interpretations in effect as at the execution date of this document, all of which are subject to change or adjustment and may have retrospective effect.

The discussion below does not involve any issue concerning the PRC or Hong Kong taxation other than income tax, capital gains tax, stamp duty and estate duty. Prospective investors are urged to consult their financial advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

1) Taxation on Dividends

A. Individual Investors

Pursuant to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) last amended on August 31, 2018 and implemented on January 1, 2019 as well as the Regulations on Implementation 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》) last amended on December 18, 2018 and implemented on January 1, 2019, dividends distributed by PRC enterprises are subject to an 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 an individual income tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty. In accordance with the Circular on Certain Issues Concerning the Policies of Individual Income Tax (Cai Shui Zi [1994] No.020) (《關於個人所得稅若干政策問題的通知》(財稅字[1994]020號)) promulgated by the Ministry of Finance (“MOF”) and the State Administration of Taxation (the “SAT”) on May 13, 1994 and effective from the same day, overseas individuals are, as an interim measure, exempted from the individual income tax for dividends or bonuses received from foreign-invested enterprises. According to the Notice of the State Council on Approving and Relaying the Several Opinions of the National Development and Reform Commission and Other Departments on Deepening Reform of the Income Distribution System (《國務院批轉發展改革委等部門關於深化收入分配制度改革若干意見的通知》) issued by the State Council on February 5, 2013, overseas individuals are no longer exempted from the individual income tax for dividends or bonuses received from foreign-invested enterprises, which is, however, not specified in the subsequent Individual Income Tax Law of the PRC and relevant tax regulations.

On June 28, 2011, the SAT issued the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Document Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《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》(國稅函[2011]348號)), pursuant to which, dividends received by overseas resident individual shareholders from domestic non-foreign invested enterprises which have issued shares in Hong Kong are subject to individual income tax, which shall be withheld and paid by a withholding agent according to the items of interest, dividend and bonus income. Overseas resident individual shareholders of domestic non-foreign invested enterprises which have issued shares in Hong Kong are

APPENDIX III

TAXATION AND FOREIGN EXCHANGE

entitled to relevant preferential tax treatment pursuant to the provisions in the tax treaties between the countries in which they are residents and China, and the tax arrangements between Chinese mainland and Hong Kong (Macau). Individual shareholders are generally subject to a withholding tax rate of 10% without any application when domestic non-foreign invested enterprises which have issued shares in Hong Kong distribute dividends. Where the tax rates on dividends are not 10%, the following requirements shall apply: (1) for individuals receiving dividends who are citizens from countries that have entered into tax treaties with China with tax rates lower than 10%, they may, according to the Notice of SAT on Issuing the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Guo Shui Fa [2009] No.124) (《國家稅務總局關於印發〈非居民享受稅收協定待遇管理辦法(試行)〉的通知》(國稅發[2009]124號)), apply for refund; (2) for individuals receiving dividends who are citizens from countries that have entered into tax treaties with China with tax rates higher than 10% but lower than 20%, the withholding agent will, upon distribution of dividends, withhold and pay the individual income tax at the agreed effective tax rates under the treaties, without seeking such approval; (3) for individuals receiving dividends who are citizens from countries without tax treaties with China or under other circumstances, the withholding agent will, upon distribution of dividends, withhold and pay the individual income tax at the rate of 20%.

According to the Notice on Issues Concerning Differentiated Individual Income Tax Policies on Dividends and Bonus 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》) issued by the MOF, SAT and the CSRC on 7 September 2015 and effective on 8 September 2015, where an individual holds the shares of a listed company obtained from the public offering for more than one year and transfers the stock of the listed company on the stock market, the dividend and bonus income shall be temporarily exempted from individual income tax. Where an individual acquires shares of a listed company from the public offering and transfers the stock of the listed company on the stock market, if the holding period is within one month (inclusive), the dividend and bonus income shall be included in the taxable income in full; if the holding period is more than one month but less than one year (inclusive), the dividend and bonus income shall be included in the taxable income at the rate of 50%; the aforesaid income shall be subject to individual income tax at a uniform rate of 20%.

In accordance with the Arrangement between Chinese mainland 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》) signed on August 21, 2006, the PRC Government may levy taxes on the dividends paid by a PRC company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of total dividends payable by the PRC company. If a Hong Kong resident directly holds 25% or more of the equity interest in a PRC company, then such tax shall not exceed 5% of the dividends payable by the PRC company. The Fifth Protocol to the Arrangement between the Chinese mainland 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〉第五議定書》), or the Fifth Protocol, issued by the State Administration of Taxation and effective as of 6 December 2019, provides that such preferential provisions shall not apply to any arrangement or transaction where one of its principal purposes is to obtain the tax benefits thereunder.

APPENDIX III

TAXATION AND FOREIGN EXCHANGE

B. Enterprise Investors

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), or the EIT Law, amended by the SCNPC and effective on December 29, 2018, and the Implementation Rules of 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》), or the Implementation Rules of the EIT Law, amended by the State Council and effective on April 23, 2019, a non-resident enterprise is subject to a 10% enterprise income tax on PRC-sourced income, including dividends paid by a PRC resident enterprise that issues and lists shares in Hong Kong, if such non-resident enterprise 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 PRC-sourced income is not actually connected with such establishment or place of business in the PRC. The aforesaid income tax payable by non-resident enterprises shall be withheld at source, and the payer shall be the withholding agent; the tax shall be withheld by the withholding agent from the payment or the amount due each time such payment is made or becomes due. Such tax may be reduced or exempted pursuant to an applicable treaty for the avoidance of double taxation.

The SAT Circular on Issues Relating to the Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (Guo Shui Han [2008] No.897) (《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》(國稅函[2008]897號)) issued by the SAT on November 6, 2008, which became effective on the same day, further clarified that a PRC-resident enterprise must withhold corporate income tax at a flat rate of 10% on dividends paid to non-PRC resident enterprise shareholders of H Shares with respect to the dividends of 2008 and onwards. In addition, the SAT Response to Questions on Levying Enterprise Income Tax on Dividends Derived by Non-resident Enterprises from Holding Stocks such as B Shares (Guo Shui Han [2009] No.394) (《國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆》(國稅函[2009]394號)) issued by the SAT on July 24, 2009, which became effective on the same day, further provides that PRC-resident enterprises listed on Chinese and overseas stock exchanges by issuing stocks (A shares, B shares and overseas shares) must withhold enterprise income tax at a flat rate of 10% on dividends of 2008 and onwards that it distributes to non-resident enterprise shareholders. Such tax rates may be further modified pursuant to the tax treaties or agreements that China has concluded with a relevant jurisdiction, where applicable.

Pursuant to the Arrangement between Chinese mainland 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》) signed on August 21, 2006, the PRC Government may levy taxes on the dividends paid by a PRC company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of total dividends payable by the PRC company. If a Hong Kong resident directly holds 25% or more of the equity interest in a PRC company, then such tax shall not exceed 5% of the dividends payable by the PRC company.

APPENDIX III

TAXATION AND FOREIGN EXCHANGE

C. Tax Treaties

Investors who are not PRC residents and reside in jurisdictions which have entered into avoidance of double taxation treaties or arrangements with the PRC are entitled to a reduction of the PRC enterprise income taxes imposed on the dividends received from PRC companies. At present, the PRC has entered into agreements/arrangements for the avoidance of double taxation with a number of countries or regions including HKSAR, Macau S.A.R, 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 income tax treaties or arrangements may apply to the PRC tax authorities for a refund of enterprise income tax in excess of the agreed tax rate, and the refund application is subject to approval by the PRC tax authorities.

2) Taxation on Equity Transfer

i. Income Tax

A. Individual Investors

According to the Individual Income Tax Law of the PRC, gains realized on the transfer of personal assets are subject to the income tax at a rate of 20%. Pursuant to the Circular on the Continued Exemption of Individual Income Tax over Individual Income from Share Transfer (Cai Shui Zi [1998] No.61) (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》(財稅字[1998]61號)) jointly issued by the MOF and the SAT on March 30, 1998, which became effective on the same day, from January 1, 1997. The Individual Income Tax Law (last amended and effective on January 1, 2019) and its implementing regulations do not explicitly state whether this exemption for gains from the transfer of listed company shares will be continued.

However, on December 31, 2009, the MOF, the SAT and the CSRC jointly issued the Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (Cai Shui [2009] No.167) (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》(財稅[2009]167號)), which became effective on January 1, 2010 and provides that individuals' income from transferring listed shares publicly issued and transferred on the Shanghai Stock Exchange and the Shenzhen Stock Exchange shall continue to be exempted from individual income tax, except for shares subject to sales limitations as defined in the Supplementary Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (Cai Shui [2010] No.70) (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》(財稅[2010]70號)) jointly issued by such departments on November 10, 2010 and coming into effect on the same day.

As of the execution date of this document, no provision has expressly provided that individual income tax shall be collected from non-PRC resident individual shareholders on their gains from the transfer of shares of PRC resident enterprises listed on overseas stock exchanges (such as the Hong Kong Stock Exchange).

APPENDIX III

TAXATION AND FOREIGN EXCHANGE

B. Enterprise Investors

In accordance with the EIT Law, and the Implementation Rules of the EIT Law, a non-resident enterprise is generally subject to a 10% enterprise income tax on income sourced from China, if it does not have an establishment or place in China, or has an establishment or place in China but the income is not effectively connected with such establishment or place (as stipulated in Paragraph 3, Article 3 of the EIT Law). Such income tax for non-resident enterprises is withheld at source, where the payer is required to withhold the income tax from the amount payable to the non-resident enterprise upon payment or when it becomes due. The applicable tax rate may be reduced pursuant to any tax treaties or arrangements for the avoidance of double taxation that China has entered into with the jurisdiction where the non-resident enterprise is a resident.

ii. Stamp Duty

Under the Stamp Tax Law of the People’s Republic of China (《中華人民共和國印花稅法》) issued by the SCNPC on June 10, 2021 and implemented on July 1, 2022, the PRC stamp tax is applicable to the entities and individuals that conclude taxable vouchers or conduct securities trading within the territory of the People’s Republic of China, and the entities and individuals outside the territory of the People’s Republic of China that conclude taxable vouchers that are used inside China. Therefore, PRC stamp duty on share transfer by PRC listed companies does not apply to acquisitions or dispositions of H shares outside the PRC by non-PRC investors.

3) Estate Duty

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

4) Taxation Policies of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect

On October 31, 2014 and November 5, 2016, the MOF, the SAT and the CSRC jointly issued the Notice on Taxation Policies Concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets (Cai Shui [2014] No.81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) and the Notice on Tax Policies Concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets (Cai Shui [2016] No.127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)), pursuant to which, the income from transfer differences and dividend and bonus income derived by PRC enterprise investors from investing in stocks listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect shall be included in their total income and subject to enterprise income tax in accordance with the law. In particular, the dividend and bonus income derived by PRC resident enterprises which hold H shares for at least 12 consecutive months shall be exempted from enterprise income tax according to law. H-share companies do not withhold tax on dividends and bonus income of PRC enterprise investors, and the tax payable shall be declared and paid by enterprises.

For dividends and bonuses received by PRC individual investors investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, H-share companies shall submit an application to China Securities Depository and Clearing Corporation Limited, which shall provide H-share companies with a register of PRC individual investors. H-share companies shall withhold individual income tax at a rate of 20%. Individual investors who have paid withholding tax outside the PRC may apply for tax credits at the competent tax authorities of the CSDC with valid tax deduction certificates. Individual income tax is levied on dividend and bonus income

APPENDIX III

TAXATION AND FOREIGN EXCHANGE

derived by PRC security investment funds from investing in stocks listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect in accordance with the above provisions.

Pursuant to the Announcement on Extending the Implementation of the Individual Income Tax Policies Concerning the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect and the Mainland-Hong Kong Mutual Recognition of Funds (《關於延續實施滬港、深港股票市場交易互聯互通機制和內地與香港基金互認有關個人所得稅政策的公告》), promulgated and implemented on 21 August 2023, the transfer spread income derived by mainland individual investors from investing in shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect shall be exempted from individual income tax through 31 December 2027.

2. Principal Taxation of Our Company in the PRC

For details, please refer to the Regulatory Overview in this document.

II. FOREIGN EXCHANGE

RMB is the legal currency of the PRC and is currently subject to foreign exchange controls and cannot be freely inverted into foreign currency. The State Administration of Foreign Exchange (“SAFE”) under the People’s Bank of China is responsible for all matters relating to foreign exchange, including the enforcement of exchange control regulations.

Pursuant to the Regulations of the People’s Republic of China on Foreign Exchange Control (《中華人民共和國外匯管理條例》), amended by the State Council and effective on 5 August 2008, all international payments and transfers are classified into current account items and capital account items. The PRC does not impose restrictions on international payments and transfers under current account items. Foreign exchange income from the current account of PRC enterprises may be retained or sold to financial institutions engaged in the settlement and sale of foreign exchange in accordance with relevant provisions of the State. The retention or sale of foreign exchange receipts under capital accounts to financial institutions engaged in settlement and sale of foreign exchange shall be subject to the approval of foreign exchange administrative authorities, unless otherwise stipulated by the State.

Under the Administrative Regulations on Foreign Exchange Settlement, Sale and Payment (《結匯、售匯及付匯管理規定》) issued by the People’s Bank of China on June 20, 1996 and implemented from July 1, 1996, the existing restrictions on foreign exchange transactions under capital items are retained, while the remaining restrictions on foreign exchange conversion for current items are abolished.

According to the Announcement on Reforming the RMB Exchange Rate Regime (《關於完善人民幣匯率形成機制改革的公告》) issued by the People’s Bank of China on July 21, 2005 and effective from the same date, from July 21, 2005 onwards, China has implemented a floating exchange rate system with management and regulation based on market supply and demand and with reference to a basket of currencies. As a result, RMB exchange rates are no longer pegged to USD. The People’s Bank of China publishes the closing prices of the exchange rates of RMB against USD and other currencies in the interbank foreign exchange market after the market closes on each working day, which serves as the mid-price for the currency’s transactions against RMB on the following working day.

APPENDIX III

TAXATION AND FOREIGN EXCHANGE

On August 5, 2008, the State Council promulgated the amended Regulations of the People’s Republic of China on Foreign Exchange Administration, with significant changes to China’s foreign exchange regulatory system. Firstly, balanced treatment has been adopted for foreign exchange inflows and outflows. Foreign exchange earnings from overseas may be transferred back to the PRC or deposited abroad, and foreign exchange and settlement funds under capital items may only be used for the purposes approved by competent authorities and foreign exchange control authorities. Secondly, it has improved the RMB exchange rate formation mechanism based on market supply and demand. Thirdly, when there is or appears to be a serious imbalance in international balance of payments or when there is or appears to be a serious crisis in the national economy, the state can take necessary safeguard and control measures on international balance of payments. Fourthly, it has strengthened the supervision and management of foreign exchange transactions and granted extensive powers to the SAFE to enhance its supervision and management capabilities.

According to relevant PRC laws and regulations, Chinese enterprises (including foreign-invested enterprises) requiring foreign exchange for current account transactions may, without the approval of foreign exchange authorities, make payments through foreign exchange accounts opened at designated foreign exchange banks, provided that valid receipts or vouchers for the transactions are produced. Foreign-invested enterprises that need to distribute profits in foreign currency to their shareholders and Chinese enterprises that need to pay dividends in foreign currency to their shareholders may make payments from foreign exchange accounts at designated foreign exchange banks or exchange and pay at such banks in accordance with the decision of the board of directors or the shareholders’ general meeting on the distribution of profits.

Pursuant to the Decision of the State Council on Cancelling and Adjusting a Range of Administrative Approval Items and Other Matters (Guo Fa [2014] No.50) (《國務院關於取消和調整一批行政審批專案等事項的決定》)(國發[2014]50號)) issued by the State Council on October 23, 2014 and effective from the same date, the requirement has been cancelled for the SAFE and its branches to approve the repatriation and settlement of foreign exchange proceeds raised by overseas listed foreign shares.

According to the Notice of the People’s Bank of China and the State Administration of Foreign Exchange on Issues Concerning the Administration of Funds Raised by Domestic Enterprises Listed Overseas (《中國人民銀行國家外匯管理局關於境內企業境外上市資金管理有關問題的通知》), promulgated on December 24, 2015 and effective on April 1, 2016, a domestic enterprise that conducts an overseas listing shall, within 30 working days from the first trading day of the overseas listing or the completion of the over-allotment option, apply to a bank within the province or the separately-listed municipality where it is registered (hereinafter referred to as the local bank) for overseas listing registration. In principle, funds raised by domestic enterprises through overseas listings shall be remitted back to the territory in a timely manner. Where such funds are retained overseas for the conduct of overseas direct investment, overseas securities investment, overseas lending and other businesses, the domestic enterprise shall obtain the approval or filing documents from the business competent authorities before the date of completion of the overseas issuance or the over-allotment option and shall comply with relevant cross-border funds administration provisions. The purposes of funds raised through an overseas listing shall be consistent with the relevant contents set out in publicly disclosed documents (hereinafter referred to as publicly disclosed documents), such as the document or resolutions of the board of directors or shareholders’ meetings. Any domestic shareholder who reduces their holdings must file a reduction registration with their bank either before or within 30 working days after the transaction. Until the new rules take effect in April 2016, the existing Notice on Relevant Issues 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 on December 26, 2014) remains applicable. Under that existing notice, a domestic company shall register its overseas listing with the local branch of the State Administration of Foreign Exchange within 15 working days from the date of completion of overseas listing. Funds raised by a domestic company from overseas listing may be transferred back or deposited overseas, and the use of the funds shall be consistent with those set out in the document and other disclosure documents.

APPENDIX III

TAXATION AND FOREIGN EXCHANGE

According to the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (Hui Fa [2015] No.13) (《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》(匯發[2015]13號)) issued by the SAFE on February 13, 2015, implemented from June 1, 2015 and amended on December 30, 2019, two administrative approvals have been cancelled, namely foreign exchange registration under domestic direct investment and that under overseas direct investment, which will be directly reviewed and approved by banks. The SAFE and its branches exercise indirect supervision over the foreign exchange registration of direct investment through banks.

Pursuant to the Notice of the State Administration of Foreign Exchange on Reforming and Regulating the Policies for the Administration of Foreign Exchange Settlement under Capital Items (Hui Fa [2016] No.16) (《國家外匯管理局關於改革和規範資本專案結匯管理政策的通知》(匯發[2016]16號)) issued by the SAFE on June 9, 2016 and implemented from the same date, the relevant policies have explicitly stated that the foreign exchange income from capital items (including foreign exchange capital funds, foreign debt funds, funds transferred back from overseas listings, etc.) which are subject to voluntary settlement can be settled at banks according to the particular needs of domestic institutions. The ratio of voluntary settlement of foreign exchange earnings from capital items of domestic institutions is temporarily set at 100%, which is subject to adjustment by the SAFE according to international balance of payments.

According to the Notice of the State Administration of Foreign Exchange on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance (Hui Fa [2017] No.3) (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》(匯發[2017]3號)) issued by the SAFE on January 18, 2017 and implemented from the same date, the scope of domestic foreign exchange loan settlement is further expanded to allow domestic foreign exchange loans with the background of commodity trade and exports to be settled, allow funds under domestic guarantee and foreign loans to be transferred back, allow foreign exchange settlement via the foreign exchange accounts of foreign institutions in pilot free trade zones, and implement full-coverage overseas lending management in both RMB and foreign currencies; where a domestic institution engages in overseas lending, the combined balance of foreign exchange lending in RMB and foreign currencies shall not exceed a maximum of 30% of the owner's equity in the audited financial statements of the preceding year.

According to the Notice on Further Facilitating Cross-border Trade and Investment (Hui Fa [2019] No.28) (《關於進一步促進跨境貿易投資便利化的通知》(匯發[2019]28號)) issued by the SAFE on October 23, 2019 and implemented from the same date, restrictions have been removed on the use of capital funds by non-investment foreign-invested enterprises for domestic equity investment. In addition, restrictions have also been removed on the use of funds in domestic asset realization accounts for foreign exchange settlement and the use of security deposits for foreign exchange settlement by foreign investors. Eligible enterprises in pilot areas are allowed to use capital funds, foreign debt, overseas listings and other income under capital items for domestic payments without providing the banks with proofs of authenticity in advance, and their use of funds should be genuine and compliant with the current regulations governing the use of income from capital items.