

## REGULATORY OVERVIEW

### REGULATIONS RELATING TO OUR BUSINESS

#### Laws and Regulations Relating to the Transportation Industry

According to the Regulations of the PRC on Road Transport (中華人民共和國道路運輸條例) promulgated by the State Council on 30 April 2004 and taking effect on 1 July 2004, and as amended on 9 November 2012 and 6 February 2016, the permit on the operation of the road transportation business, issued by the local transportation authority, is required for any individuals and institutions to conduct its road transportation business. The transportation vehicles shall take operation licenses which cannot be transferred or leased. Under the Regulations of the PRC on Road Transport, a company engaged in the operation of road transportation without road transportation operation licenses shall be ordered to stop its operation by the administrations of road transportation at the county level or above; any illegal gains shall be confiscated and the company shall be fined not less than 2 times but not more than 10 times of the amount of the illegal gains; where no illegal gains or the illegal gains is less than RMB20,000, the company shall be fined RMB30,000 to RMB100,000.

According to the Provisions on the Administrative of the Foreign-Invested Road Freight Forwarding Industry (外商投資道路運輸業管理規定), which became effective from 20 November 2001 and recently supplemented in December 2003, December 2004 and January 2014 respectively, foreign invested enterprises for the provision of road freight forwarding services, including the transportation of goods by road, handling, warehousing and other related services must obtain the Road Freight Forwarding Operation Permit (道路運輸經營許可證) from the provincial competent departments of communications. They must satisfy the qualifications and conditions as prescribed by, and comply with the development policies of, the State Council’s departments of communications from time to time. Pursuant to the Notice of Guangdong Provincial Department of Transportation on Delegating the Examination and Approval Authority of the Business Road Transportation of Hong Kong and Macao Enterprises (廣東省交通運輸廳關於下放港澳企業從事營業性道路運輸審批權限的通知) (Yue Jiao Yun (2012) No.1118) (粵交運(2012)1118號), the examination and approval authority of the Hong Kong and Macao commercial road transportation enterprises was delegated to the municipal department of transportation above local level, and the Hong Kong and Macao enterprises shall obtain the Road Freight Forwarding Operation Permit from the municipal department of transportation above local level.

The Work Safety Law of the PRC (中華人民共和國安全生產法) (“**Work Safety Law**”) was promulgated by the National People’s Congress Standing Committee on 29 June 2002 and came into effect on 1 November 2002 and was amended respectively on 27 August 2009 and 31 August 2014, and came into effect on 1 December 2014. According to the Work Safety Law, road transportation entities shall establish a work safety management office or be staffed with full-time work safety management personnel.

#### International Freight Forwarding Business

According to the Interim Rules Regarding the Filing of the International Freight Forwarding Enterprises (國際貨運代理企業備案(暫行)辦法), issued by the MOFCOM on 2 March 2005 and effective as of 1 April 2005, and amended on 18 August 2016, the foreign investment enterprises conducting international freight forwarding business shall file for record with the local administrative authority on commerce after the business licenses have been obtained. Under the Administrative Measures for Foreign-Invested International Freight Forwarding Enterprises (外商投資國際貨物運輸代理企業管理辦法), promulgated by the MOFCOM on 1 December 2005 which was effective as of 11

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December 2005 and amended on 28 October 2015, foreign companies may establish a foreign investment enterprise, either wholly-owned or as a joint venture, to conduct business as an international freight forwarding agent, including such business as booking cargo space, forwarding, storing and packing cargos, customs declaration or certain other services.

### Customs Clearance Agency Business

The Customs Law of the PRC (the “**Customs Law**”) (中華人民共和國海關法) was promulgated by the Standing Committee of the National People’s Congress on 22 January 1987 and was respectively amended on 8 July 2000, 29 June 2013, 28 December 2013 and 7 November 2016. Pursuant to the Customs Law, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the Customs. In addition, the consignor or consignee of the goods exported or imported (進出口貨物收發貨人) and the customs broker must register themselves for declaration activities at the Customs office.

Pursuant to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (中華人民共和國海關報關單位註冊登記管理規定) issued by the General Administration of Customs on 13 March 2014 and came into effect on the same day, customs declaration entities shall go through the applicable registration procedures with Customs, and the consignor or consignee of imported and exported goods may complete the registration procedure with their local Customs.

Principal regulations on the inspection of import and export commodities are set out in the Law of the PRC on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法) promulgated by the Standing Committee of the National People’s Congress on 21 February 1989 and amended on 28 April 2002 and 29 June 2013 and its implementation rules promulgated on 31 August 2005 and amended on 18 July 2013 and 6 February 2016. Pursuant to the aforesaid relevant laws and regulations, the import and export commodities that are subject to compulsory inspection listed in the catalog compiled by the State administration shall be inspected by the commodity inspection authorities, and the import and export goods which are not subject to statutory inspection shall be inspected randomly. Consignees and consignors themselves or its entrusted agent shall apply for inspection to the commodity inspection authorities.

## REGULATIONS RELATING TO FOREIGN INVESTMENT IN CHINA

### Foreign Investment

The foreign investment is regulated by the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) ( the “**Catalogue**”), which was promulgated and implemented on 20 June 1995, respectively amended in 1997, 2002, 2004, 2007, 2011, 2015 and 2017. The version of the Catalogue currently in effect was jointly promulgated by MOFCOM and NDRC on 28 June 2017, effective from 28 July 2017. Pursuant to the Catalogue, the foreign investment industries are divided into three categories in terms of foreign investment, which are “encouraged,” “restricted” and “prohibited”. All industries not listed under one of these categories are deemed to be “permitted”.

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The establishment, operation and management of corporate entities in the PRC is governed by the PRC Company Law (中華人民共和國公司法), which was promulgated by the Standing Committee of the National People’s Congress of the PRC on 29 December 1993 and came into effect on 1 July 1994. The PRC Company Law was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. The latest amended PRC Company Law became effective on 1 March 2014. The PRC Company Law generally governs two types of companies — limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of shareholders of a limited liability company and a joint stock limited company is limited to the amount of registered capital they have contributed. The PRC Company Law shall also apply to foreign-invested companies. Where laws on foreign investment have other stipulations, such stipulations shall prevail.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange matters, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (hereinafter the “**WFOE Law**”), promulgated on 12 April 1986 and amended on 31 October 2000, and the Rules for the Implementation of the WFOE Law (中華人民共和國外資企業法實施細則), promulgated on 12 December 1990 and amended on 12 April 2001 and 19 February 2014. The WFOE Law has been revised by the Standing Committee on 3 September 2016 and has become effective from 1 October 2016. According to the amendments, for wholly foreign-owned enterprise which the special entry management system does not apply to, its establishment, operation duration and extension, separation, merger or other major changes shall be reported for record. The special entry management system shall be promulgated or approved to be promulgated by the State Council.

Pursuant to the Provisional Administrative Measures on Establishment and Modifications (Filing) for Foreign Investment Enterprises (外商投資企業設立及變更備案管理暫行辦法) (“**Provisional Measures**”), promulgated by MOFCOM on 8 October 2016 and became effective on the same day, establishment and modifications of foreign invested enterprises which are not subject to the approval under the special entry management measures shall be filed with the delegated commercial authorities. Within the record-filing scope stipulated in Provisional Measures, foreign-invested enterprises shall fill in online and submit an application for record-filing of the change of foreign-invested enterprises and the relevant documents, and handle the record-filing procedures since 8 October 2016. After the completion of record-filing, foreign-invested enterprises may obtain relevant record-filing receipts.

### **The M&A Provisions**

The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定), or the M&A Provisions, issued by six PRC ministries including the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration for Industry and Commerce, China Securities Regulatory Commission and the State Administration of Foreign Exchange (“**SAFE**”), effective from 8 September 2006 and amended on 22 June 2009, provide the rules with which foreign investors must comply should they seek to purchase by agreement the equities of the shareholders of a domestic non-foreign-funded enterprise or subscribe to the increased capital of a domestic non-foreign-funded enterprise, and thus change the domestic non-foreign-funded enterprise into a foreign funded enterprise to conduct asset merger and acquisition.

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### Regulations on Foreign Exchange and Dividend Distribution

The Foreign Exchange Administration Regulations (外匯管理條例) promulgated by the State Council on 29 January 1996 as amended on 14 January 1997 and 5 August 2008, and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) promulgated by the People’s Bank of China on 20 June 1996 which became effective on 1 July 1996, apply and provide regulatory provisions to the foreign exchange transactions for foreign-invested enterprises. Foreign-invested enterprises are permitted to convert after-tax dividends into foreign exchange and to remit such foreign exchange from their bank accounts in PRC.

In October 2005, SAFE issued the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents Engaging in Overseas Financing through Round-trip Investment via Offshore Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), commonly known as the “**Circular 75**”. According to the Circular 75, a special purpose company refers to an offshore company established or indirectly controlled by PRC residents for the special purpose of carrying out financing of their assets or equity interest in PRC domestic enterprises. Prior to establishing or assuming control of a special purpose company, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch. The notice applies retrospectively. These PRC residents must also amend the registration with the relevant SAFE branch in the following circumstances: (1) the PRC residents have completed the injection of equity investment or assets of a domestic company into the special purpose company; (2) the overseas funding of the special purpose company has been completed; or (3) there is a material change in the capital of the special purpose company. Under the rules, failure to comply with the foreign exchange registration procedures may result in restrictions being imposed on the foreign exchange activities of the violator, including restrictions on the payment of dividends and other distributions to its offshore parent company, and may also subject the violators to penalties under the PRC foreign exchange administration regulations.

On 4 July 2014, SAFE issued the Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents Engaging in Overseas Financing and Investing and Round-Trip Investment via Special Purpose Companies (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) together with its two appendices (“**Circular 37**”, collective, the “**New Rule**”), which became effective on the same date. The New Rule supersedes the Circular 75, and is intended to simplify and facilitate cross-border transactions conducted by domestic residents and to better serve the development of the Chinese economy in order to enhance the convertibility of cross-border capital and financial transactions.

In light of the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of 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) (the “**Circular 13**”) promulgated by the SAFE on 13 February 2015, effective as of 1 June 2015, the direct investment related foreign exchange registration under Circular 37 will be handled directly by banks that have obtained the financial institution identification codes issued by the foreign exchange regulatory authorities and that have opened the capital account information system at the foreign exchange regulatory authority in the place where they are located and the foreign exchange regulatory authorities shall perform indirect regulation over the direct investment-related foreign exchange registration via banks.

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The Law of the PRC on Enterprise Income Tax (中華人民共和國企業所得稅法) prescribes a standard withholding tax rate of 20% on dividends and other China-sourced income of non-resident enterprises that have not set up institutions or establishments in China, or have set up institutions or establishments but the income obtained by the said enterprises has no actual connection with the set up institutions or establishments. However, the Regulation on the Implementation 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), which was promulgated on 6 December 2007 and became effective on 1 January 2008, reduced the rate from 20% to 10% with the implementation date starting from 1 January 2008.

Pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and 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稅避免雙重徵稅和防止偷漏稅的安排) on 21 August 2006, no more than the 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the recipient is a company that holds less than 25% of the capital of the PRC company.

According to the Announcement on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (關於發佈《非居民納稅人享受稅收協定待遇管理辦法》的公告), which was promulgated on 27 August 2015, and became effective as of 1 November 2015, any non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities.

## TAXATION LAWS AND REGULATIONS

### Enterprise Income Tax

On 16 March 2007, the National People’s Congress passed the Law of the PRC on Enterprise Income Tax (中華人民共和國企業所得稅法) with effect from 1 January 2008, which was amend on 24 February 2017. The Law of the PRC on Enterprise Income Tax adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises.

### Business Tax

Pursuant to the Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例), promulgated by the State Council on 13 December 1993 and amended on 10 November 2008 with effect from 1 January 2009, and its Implementation Rules on the Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例實施細則) issued by the Ministry of Finance of the PRC (the “MOF”) on 25 December 1993 and amended on 18 December 2008 and 28 October 2011 with effect from 1 November 2011, all entities and individuals that provide taxable services, transfer intangible assets or sell real estate within the PRC are required to pay business tax. The scope of services which constitute taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulations.

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### Value-added Tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) last amended on 6 February 2016 and effective on the same day and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax (the "VAT"). The amount of VAT payable is calculated as "output VAT" minus "input VAT". The rate of VAT is 17% for those engaging in the sale or importation of goods except as otherwise provided by paragraph (2) and paragraph (3) of Article 2 in the Provisional Regulations on Value-added Tax of the PRC and is also 17% for those providing processing services, repairs and replacement services.

Pursuant to the Notice in Relation to Fully Expand the Trials of the Replacement of the Business Tax with a Value-added Tax (關於全面推開營業稅改徵增值稅試點的通知) jointly issued by MOF and the State Administration of Taxation on 23 March 2016, the pilot trials of [REDACTED] the business tax (the "BT") with VAT will be launched around the country since 1 May 2016, under which the industry of construction, real estate, financial services and living services, etc. will be included in the scope of the replacement of the BT with a VAT and be subject to VAT instead of BT. Pursuant to the Implementing Measures for the Pilot Trials of [REDACTED] the BT with a VAT (營業稅改徵增值稅試點實施辦法) (the "Implementing Measures"), individuals and units selling service, intangible assets or real estate in PRC shall be regarded as VAT taxpayers and pay VAT, not BT.

Under the Implementing Measures, the provision of property management service, agency service, human resource service, educational and medical service, tourism and entertainment service, catering and accommodation service, as well as leasing service will be included in the replacement of the BT with a VAT and be subject to VAT.

Furthermore, pursuant to the Implementing Measures, the tax rate of VAT is:

- (i) 11% for the provision of the service of transportation, posting, basic telecommunications and leasing real estate, the sale of real estate and the transfer of land use right;
- (ii) 17% for the provision of the service of leasing tangible movables;
- (iii) nil for cross-border taxable activities provided by units and individual within the PRC; and
- (iv) 6% for industry other than disclosed above.

### Urban Maintenance and Construction Tax

Pursuant to the Provisional Regulation on Urban Maintenance and Construction Tax of the PRC (中華人民共和國城市維護建設稅暫行條例) promulgated by the State Council on 8 February 1985 and amended on 8 January 2011, any taxpayer, whether an entity or individual, of consumption tax, value-added tax or business tax shall be required to pay urban maintenance and construction tax based on the total amount of consumption tax, value-added tax or business tax paid by such taxpayer. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

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### Education Surcharge

Pursuant to the Provisional Provisions on Imposition of Education Surcharge (徵收教育費附加的暫行規定) promulgated by the State Council on 28 April 1986 and revised on 7 June 1990, 20 August 2005 and 8 January 2011, a taxpayer, whether an entity or individual, of consumption tax, value-added tax or business tax shall pay an education surcharge at a rate of 3% on the total amount of consumption tax, value-added tax or business tax paid by such entity, unless such obliged taxpayer is instead required to pay a rural area education surcharge as stipulated under the Notice of the State Council on Raising Funds for Schools in Rural Areas (國務院關於籌措農村學校辦學經費的通知) that promulgated by State Council on 13 December 1984.

### REGULATIONS RELATING TO INTELLECTUAL PROPERTY

#### Trademarks

The Trademark Law of the PRC (中華人民共和國商標法), or the Trademark Law, was promulgated on 23 August 1982, subsequently amended on 22 February 1993, 27 October 2001, and 30 August 2013, with the latest amendment effective on 1 May 2014 and Implementation Regulations on the Trademark Law of the PRC (中華人民共和國商標法實施條例) was amended by the State Council on 29 April 2014, and became effective on 1 May 2014. The trademark registrant may, by concluding a trademark licensing contract, authorise other persons to use the registered trademark. The licensor shall supervise the quality of the goods on which the licensee uses the licensor’s registered trademark, and the licensee shall guarantee the quality of the goods on which the registered trademark is used. Without putting the licensing of the trademark on records, the trademark shall not be used to defend the bona fide third party.

#### Domain Name

The Ministry of Information Industry promulgated its Administrative Measures on China Internet Domain Name (中國互聯網絡域名管理辦法) (the “**Domain Name Measures**”) on 5 November 2004. According to the Domain Name Measures, domain name owners are required to register their domain names. The domain name services follow a “first come, first file” principle. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to and enter into registration agreements with domain name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

### LABOR LAW AND REGULATIONS

Enterprises in China are mainly subject to the following PRC labor laws and regulations: Labor Law of the PRC (中華人民共和國勞動法), PRC Labor Contracts Law (中華人民共和國勞動合同法), the Social Insurance Law of the PRC (中華人民共和國社會保險法), the Regulation of Insurance for Work-Related Injury (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例), the Provisional Measures on Insurance for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), the Administrative Regulation on Housing Fund (住房公積金管理條例) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time.

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Pursuant to Labor Law of the PRC, which was promulgated on 5 July 1994, amended and being effective on 27 August 2009, companies must enter into employment contracts with their employees, based on the principles of equality, consent and agreement through consultation. Companies must establish and effectively implement a system of ensuring occupational safety and health, educate employees on occupational safety and health, preventing work-related accidents and reducing occupational hazards. Companies must also pay for their employees’ social insurance premium.

The principal regulations governing the employment contract is the PRC Labor Contracts Law, which was promulgated on 29 June 2007 and amended on 28 December 2012 and came into effect on 1 July 2013. Pursuant to the PRC Labor Contracts Law, employers shall establish employment relationship with employees on the date that they start employing the employees. To establish employment, a written employment contract shall be concluded, or employers will be liable for the illegal actions. Furthermore, the probation period and liquidated damages shall be restricted by the law to safeguard employees’ rights and interests.

As required under the Social Insurance Law of the PRC, the Regulation of Insurance for Work-Related Injury, the Provisional Measures on Insurance for Maternity of Employees, the Interim Provisions on Registration of Social Insurance and the Administrative Regulation on Housing Fund, enterprises in China are obliged to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance, medical insurance and housing accumulation fund.

According to the Interim Provisions on Labor Dispatch (勞務派遣暫行規定) (the “**Interim Provisions**”) promulgated on 24 January 2014, affective as of 1 March 2014, employers may use dispatched laborers only for temporary, auxiliary or substitutable positions. The number of dispatched labors shall not exceed 10% of the total number of employers’ workers. However, pursuant to the Interim Provisions, there is a transition period for enterprises to adjust labor structure for compliance purpose. Where the number of dispatched labors used by an enterprise prior to the implementation of the Interim Provisions exceeds 10% of its total number of workers, the enterprise shall make a plan for the adjustment of such labor using, and reduce the said percentage to the required proportion within two years from the Interim Provisions implementation date. If any labor contract or labor dispatch agreement legally executed prior to 28 December 2012 will expire after 1 March 2016, such contracts or agreements may continue to be performed until the expiry thereof in accordance with the law.