

TAXATION AND FOREIGN EXCHANGE IN THE PRC**Taxes Applicable to Companies*****Enterprise Income Tax***

Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) (hereinafter referred to as the "EIT Law") was promulgated on March 16, 2007, and became effective on January 1, 2008. The EIT Law regulates the rate of enterprise income tax at 25%. Hi-tech enterprises strongly supported by the State are entitled to enjoy a reduced 15% enterprise income tax rate; and where an enterprise has incurred research and development expenses in the development of new technologies, new products and new processes, such expenses can be incrementally deducted in calculating the taxable income.

The Notice of the Ministry of Finance and the State Administration of Taxation on the Applicable Foreign Income Tax Rate and Tax Credit of Hi-tech Enterprises (《財政部、國家稅務總局關於高新技術企業境外所得適用稅率及稅收抵免問題的通知》) which became effective from January 1, 2010, provides that, where enterprises applied for the qualification of, and were accredited as, hi-tech enterprise based on such indicators as total research and development expenses, total income, total sales income and income from hi-tech products (services) in relation to all domestic and foreign production and operating activities, their income from foreign sources may enjoy the preferential income tax policies for hi-tech enterprises, i.e., their income from foreign sources is subject to the enterprise income tax at a preferential rate of 15%, and, in calculating the foreign credit limit, the total foreign and domestic taxable amount is calculated at a preferential rate of 15%.

The Circular of the State Administration of Taxation on Issues of Enterprise Income Tax Concerning the Implementation of the Catalog of Encouraged Industries in the Western Region (《國家稅務總局關於執行〈西部地區鼓勵類產業目錄〉有關企業所得稅問題的公告》) became effective from October 1, 2014. For enterprises incorporated in the western region whose principal businesses belong to the new items of encouraged industries prescribed in the Catalog of Encouraged Industries in the Western Region (《西部地區鼓勵類產業目錄》), of which their income from principal businesses accounted for more than 70% of their total income in the current year, the enterprise income tax may be levied at a reduced tax rate of 15% from October 1, 2014. For enterprises that are entitled to the preferential policies of enterprise income tax as provided in the article 3 of the Circular of the State Administration of Taxation on Issues of Enterprise Income Tax Concerning the In-depth Implementation of Western Region Development Strategy (《國家稅務總局關於深入實施西部大開發戰略有關企業所得稅問題的公告》) (No. 12 Circular of the State Administration of Taxation of 2012), where their principal businesses no longer belonged to the items of encouraged industries of the State prescribed in the Catalog of Encouraged Industries in the Western Region, the enterprise income tax levied at a reduced tax rate of 15% shall be ceased from October 1, 2014.

Pursuant to the Notice on the Execution of the Catalog of Public Infrastructure Projects Entitled for Preferential Tax Treatment (《關於執行公共基礎設施項目企業所得稅優惠目錄有關問題的通知》) which was jointly promulgated by the Ministry of Finance and the State Administration of Taxation on September 23, 2008, an enterprise set up after January 1, 2008 and engaged in public infrastructure projects is entitled to a tax holiday of full exemption for the first three years, followed by a three-year 50% exemption commencing from the first year it generates operating income.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on Issues Concerning the Implementation of the Catalog of Enterprise Income Tax Preference for

Equipment Specialized for Environmental Protection, the Catalog of Enterprise Income Tax Preference for Equipment Specialized for Energy and Water Conservation and the Catalog of Enterprise Income Tax Preference for Equipment Specialized for Production Safety (《財政部、國家稅務總局關於執行環境保護專用設備企業所得稅優惠目錄節能節水專用設備企業所得稅優惠目錄和安全生產專用設備企業所得稅優惠目錄有關問題的通知》) issued by the MOF and the SAT on September 23, 2008, where an enterprise purchases and actually utilizes any of the specialized equipment related to environmental protection, energy and water conservation and production safety prescribed in the Catalog of Enterprise Income Tax Preference for Equipment Specialized for Production Safety from January 1, 2008, 10% of the investment in the specialized equipment may be offset against its enterprise income tax payable for the current year; where the tax payable for the current year is less than the credit, the remaining credit may be carried forward in the following years. However, the carry forward period shall not exceed 5 taxable years. Investment in the specialized equipment refers to the aggregate amount of the prices and taxes stated on the purchase invoices of the specialized equipment, excluding the value-added tax returned according to the relevant requirements and the fees for the transportation, installation and commissioning of the equipment. Tax payable for the current year equals to the enterprise's taxable income for the year multiplied by the applicable tax rate, net of the tax reduced and exempted according to the EIT Law, the requirements of the State Council related to tax preferences and requirements in respect of tax preferences during the transitional period. The investment in specialized equipment from the self-raised funds and bank loans of an enterprise may be offset against its payable income tax in accordance with the Enterprise Income Tax Law; and the investment in specialized equipment from the financial appropriation to an enterprise may not be offset against its payable income tax. Where the specialized equipment purchased and actually put into application by an enterprise which has started to enjoy the tax preference is transferred or leased during the 5 taxable years following the purchase, such enterprise income tax preference shall be ceased from the month when stop using such equipment, and the offset amount of enterprise income tax shall be repaid. 10% of the investment in such specialized equipment may be offset against the enterprise income tax payable by the transferee for the current year; where the tax payable for the current year is insufficient for the credit, the remaining credit may be carried forward in the following 5 taxable years.

Business Tax

According to the Provisional Regulations on Business Tax of The People's Republic of China (《中華人民共和國營業稅暫行條例》) in effect since January 1, 1994 and amended on November 10, 2008 and the Detailed Rules for Implementation of the Provisional Regulations on Business Tax of The People's Republic of China (《中華人民共和國營業稅暫行條例實施細則》) in effect since January 1, 1994 and first amended on December 15, 2008 and latest amended on October 28, 2011, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC shall pay business tax.

Value-added Tax (VAT)

According to the Provisional Regulations on Value-added Tax of the People's Republic of China (《中華人民共和國增值稅暫行條例》) in effect since January 1, 1994 and amended on November 10, 2008 and the Detailed Rules for Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China (《中華人民共和國增值稅暫行條例實施細則》) in effect since January 1, 1994 and first amended on December 15, 2008 and latest amended on October 28, 2011, all institutions and individuals selling goods or providing processing, repairing or replacement services or importing goods within the PRC shall pay VAT.

The tax rate of 13% shall be levied on general taxpayers selling or importing grain, edible vegetable oil, tap water, heating supply, air-conditioning, gas, liquefied petroleum gas, natural gas, marsh gas, coal products for civil use, books, newspapers, magazines, feedstuff, chemical fertilizer, pesticide, farming machines, films for agricultural use and other goods specified by the State Council. The rate applicable to goods exported by taxpayers shall be zero unless otherwise prescribed by the State Council.

The rate of 17% shall be levied on taxpayers selling or importing goods other than the abovementioned items, and to taxpayers providing processing, repair or replacement services.

A tax rate of 3% is applicable to goods sold or taxable services provided by small-scale taxpayers. A small-scale taxpayer is defined as a taxpayer engaged in the manufacturing of goods or the supply of taxable services, or primarily dealing in the manufacturing of goods or supply of taxable services while concurrently engaged in the wholesale or retail of goods as secondary operations, and has annual sales subject to VAT (hereinafter referred to as “taxable sales”) of less than RMB500,000; or a taxpayer engaged in business other than those set forth above and having annual taxable sales of less than RMB800,000. Individuals, non-enterprise institutions, and enterprises not frequently incurring taxable activities with annual taxable sales beyond the figure set for small-scale taxpayers shall be treated as small-scale taxpayers for the purpose of VAT payment.

The withholding agent of the VAT should be: the domestic agents of foreign entities or individuals, who provide taxable services within the territory of the PRC but have no business institutions in the PRC; or the purchaser of the services in case there is no domestic agent.

The Notice of the Ministry of Finance and the State Administration of Taxation on the Value Added Tax Policy for Photovoltaic Power Generation (《財政部、國家稅務總局關於光伏發電增值稅政策的通知》) came into force from October 1, 2013. From October 1, 2013 to December 31, 2015, the policy of immediate refund of 50% of VAT upon levy shall be applied to the sale of self-produced electricity products produced with solar power by the taxpayers.

Stamp Tax

According to the Provisional Regulations on Stamp Tax of the People’s Republic of China (《中華人民共和國印花稅暫行條例》) as brought into effect on October 1, 1988 and amended on January 8, 2011, all institutions and individuals executing or receiving taxable documents within the PRC shall pay stamp tax. Taxable documents includes purchase and sale contracts, processing contracts, construction project contracts, property lease contracts, cargo freight contracts, warehousing and storage contracts, loan contracts, property insurance contracts, technical contracts, other documents that resemble a contract in nature, title transfer deeds, business account books, certificates of rights, licenses and other taxable documents specified by the Ministry of Finance.

Pursuant to the Notice of the Ministry of Finance and State Administration of Taxation on Certain Policies Related to Stamp Tax (《財政部、國家稅務總局關於印花稅若干政策的通知》) issued on November 27, 2006, the electricity sale and purchase contracts entered into by the power generators and the grid companies are purchase and sale contracts taxable at the rate of 0.3%.

Taxes Applicable to Shareholders of Companies

Dividend-related Tax

According to the Law on Individual Income Tax of the People's Republic of China (《中華人民共和國個人所得稅法》) (hereinafter referred to as the "Individual Income Tax Law") brought into effect on September 10, 1980 and most recently amended on June 30, 2011, individual income tax at the rate of 20% shall be levied on dividends of H shares received by any and all foreign individuals that are non-Chinese residents.

According 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》) promulgated on August 21, 2006, dividends paid by a company which is a resident of one side to residents of the other side may be taxed by the other side. However, such dividends may also be taxed in accordance with the laws of the side of which the dividend paying company is a resident. But, if the beneficial owner of such dividends is a resident of the other side, then the amount of tax levied shall not exceed: (1) 5% of the gross amount of the dividends if the beneficial owner has direct ownership of at least 25% of the share capital of the company paying the dividends; (2) 10% of the gross amount of the dividends under other circumstances. The competent authorities of both sides shall by mutual agreement settle the mode of application of the tax rate limitations. This clause shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

According to the Notice of the State Administration of Taxation on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 45 Document (《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》) promulgated and implemented on June 28, 2011, where the non-resident individual shareholders obtain dividend and bonuses from domestic non-foreign-invested enterprise which issued shares in Hong Kong, individual income tax shall be lawfully withheld by the withholding agent according to the domain of "interest, dividends and bonuses." The non-resident individual shareholders of domestic non-foreign-invested enterprise which issued shares in Hong Kong may enjoy the taxation preferences in accordance with the taxation agreements between countries of their origins and China and the regulation on taxation arrangement between the Mainland and Hong Kong (Macau). The individual income tax is generally subject to a rate of 10%.

According to the Circular on Questions Concerning Withholding and Paying Enterprise Income Tax for Dividends Received by Oversea H-share Holders (Enterprise shareholders) from Chinese Resident Enterprises (《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》) (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation on November 6, 2008, enterprise income tax at the rate of 10% shall be levied on dividends of H-shares received in 2008 and thereafter by any overseas enterprise shareholders that are non-Chinese residents from Chinese resident enterprises.

According to the Official Reply of the State Administration of Taxation on Issues Concerning Levying Enterprise Income Tax on Dividends of B Shares and Other Shares Obtained by Non-resident Enterprises (《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》) (Guo Shui Han [2009] No. 394) issued by the State Administration of Taxation on July 24, 2009, where Chinese resident enterprises that have shares (A shares, B shares and overseas shares) publicly issued and listed in and outside of China pay dividends for the year ended 2008 and years thereafter to non-resident

enterprise shareholders, enterprise income tax at the rate of 10% shall be unifiedly withheld and remitted. Where non-resident enterprise shareholders need to enjoy tax treatments specified in tax agreements, relevant provisions of tax agreements shall apply.

Share transfer-related tax

As the Notice of the State Administration of Taxation Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (《國家稅務總局關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知》) (Guo Shui Fa [1993] No.045), which previously stipulated that the proceeds from transfer of H shares by oversea individuals were exempted from income tax, was abolished by the Notice of General Office of the State Council Concerning Cleanup of the Regulations (《國務院辦公廳關於做好規章清理工作有關問題的通知》) (Guo Ban Fa [2010] No.28), there are no prevailing policies that provide explicit guidelines on the tax liability of oversea individuals for the proceeds from transfer of H shares. In the event that such oversea individuals constitute PRC fiscal residents defined by relevant regulations, or that the shares to be held by such oversea individuals in a company will exceed 25% of its total share capital, since the Notice of the Ministry of Finance and the State Administration of Taxation concerning the Continued Individual Income Tax Exemption for Individuals' Proceeds from Share Transfers (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No.61) was not applied to H shares, such oversea investors may have to pay individual income tax according to the relevant regulations of the Individual Income Tax Law of the PRC.

Estate duty or inheritance tax

There is no estate duty or inheritance tax levied in China at present.

THE PRC LAWS AND REGULATIONS CONCERNING FOREIGN EXCHANGE CONTROL

The Regulations on Control of Foreign Exchanges of the People's Republic of China (《中華人民共和國外匯管理條例》) (hereinafter referred to as the "Foreign Exchange Regulations") promulgated by the State Council, implemented on April 1, 1996, first amended on January 14, 1997 and further amended on August 6, 2008, is applicable to the receipts, payments or business activities in China that are transacted in foreign currencies by domestic institutions, individuals, foreign organizations' institutions in China and foreign individuals visiting China. The second amendment of the Foreign Exchange Regulations on August 6, 2008 substantially changed the regulatory system by abolishing the compulsory sale principle of the exchange income under current items, which means enterprises and individuals have the option either to sell to banks or keep the exchange income.

The Regulations on Control of Foreign Exchange Settlements, Sales and Payments (《結匯、售匯及付匯管理規定》) issued by PBOC and implemented on July 1, 1996 governs the foreign exchange settlements, purchases, foreign exchange account openings and payments to foreign countries that are incurred in China by domestic institutions, individual residents, foreign organizations' institutions in China and foreign individuals visiting China.

The PBOC publicizes the exchange rates between Renminbi and other major foreign currencies on each business day. The exchange rates are determined by reference to the preceding day's trading prices of Renminbi against major foreign currencies in the inter-bank foreign exchange market.

The PRC government has been loosening its control over foreign exchange purchases. Any Chinese enterprise in need of foreign currencies in their day-to-day business activities, trade and non-trade operations, import business and payment of foreign debts may purchase foreign currencies from designated banks, provided that they submit the required appropriate supporting documents.

The Notice Concerning Foreign Exchange Control of Overseas-listed Enterprises, (《關於境外上市外匯管理有關問題的通知》), which was promulgated by the SAFE, was implemented on December 26, 2014, and it provides that:

(1) A domestic company shall, within 15 working days upon initial offerings of overseas listing, fulfill the procedure of overseas listing with the Administration of Foreign Exchange at the place of registration.

(2) Where any domestic shareholder of a domestic company intends to increase or reduce overseas holdings upon overseas listing, it shall fulfill the procedure of overseas holdings with the Administration of Foreign Exchange at the place of registration within 20 working days prior to such intended increase or reduction of holdings.

(3) A domestic company shall, based on its registration certificate of overseas listing, open a “special foreign exchange account for the overseas listing of domestic company” with a domestic bank for the initial offerings (or additional offerings) and buy-back business so as to handle funds remittance and transfer for the relevant business.

(4) A domestic shareholder of a domestic company shall, based on his/her registration certificate of overseas holdings, open a “special account for overseas shareholding of domestic shareholder” with a domestic bank for the business of increasing, reducing or transferring shares of overseas listed companies so as to handle funds remittance and transfer for the relevant business.

(5) Where a domestic company or its domestic shareholder needs to handle overseas listing business, it can open corresponding special overseas account. The scope of balance of such special overseas accounts shall meet certain requirements.

(6) A domestic company may repatriate the proceeds from offshore listing to its domestic account or retain such proceeds at its overseas account. The use of such proceeds shall be consistent with the content of the prospectus or documents for issuance of corporate bonds, shareholders’ circulars, resolutions of the board of directors or general meetings and other publicly disclosed documents. Proceeds raised from issuance of convertible bonds by a domestic company and intended to be remitted to its domestic account shall be remitted to its special domestic account for foreign debts and the company shall complete relevant procedures in accordance with relevant regulations on foreign debts administration; and proceeds raised from issuance of other types of securities by a domestic company and intended to be remitted to its domestic account shall be remitted to its special domestic account for offshore listing (foreign exchange) or payment account (Renminbi).

(7) A domestic company may use overseas funds as stipulated by relevant provisions or remit funds out of the PRC to repurchase overseas shares. Where the domestic company chooses to remit funds out of the PRC to repurchase overseas shares, it should, by presenting the certificate of overseas listing registration obtained following the registration of the repurchase related information (including change procedures) at the local foreign exchange bureaus (if fail to register the repurchase related

information, it is required to conduct the registration within 20 working days before the proposed repurchase and obtain relevant registration certificate) and statements or supporting materials of the repurchase, complete the remittance with deposit bank through special account for offshore listing (foreign exchange) or payment account (Renminbi). Upon completion of the repurchase, any surplus in the funds remitted overseas for such repurchase shall be transferred back to domestic company's special account for offshore listing (foreign exchange) or payment account (Renminbi).

(8) A domestic shareholder may, in accordance with applicable regulations, use overseas funds as stipulated by relevant provisions or remit funds out of the PRC to increase his/her overseas shares of a domestic company. Where the domestic shareholder chooses to remit funds out of the PRC, he/she should, by presenting his/her overseas shareholding registration certificate and statements or supporting materials of the shareholding increase, complete the transfer with deposit bank through domestic shareholder's special account for offshore holding. Upon completion of the shareholding increase, any surplus in the funds remitted overseas for such increase shall be transferred back to the said account. The domestic shareholder may, by presenting the overseas shareholding registration certificate, complete such funds transfer or settlement procedures with the bank.

(9) A domestic shareholder's income raised from reduction or transfer of overseas shares of a domestic company or raised from the shares delisted from overseas stock exchange on the capital account may be deposited at the shareholder's overseas account or remitted to the special account for offshore shareholding. Where the domestic shareholder chooses to remit the income to its domestic account, the domestic shareholders may, by presenting the overseas shareholding registration certificate, complete the transfer or settlement procedures with the bank.

(10) In principle, the reasonable charges with respect to overseas listing paid by a domestic company to overseas supervisory authorities, stock exchanges, underwriters, lawyers, accountants or other overseas institutions shall be deducted from the raised funds of overseas listing; in the event of remitting from home (inclusive of remitting via foreign currency purchase), the company shall follow the procedure of the bank.

(11) Where a domestic company withdraws from overseas securities market, it shall, within 15 working days upon the date of withdrawal, handle the cancellation of overseas listing registration by presenting the photocopy of the competent authority's reply, withdrawal announcement and other proof for truthfulness and registration certificate of overseas listing and written explanation regarding the relevant account and fund settlement to the Administration of Foreign Exchange at the place of registration. At the same time, the Administration of Foreign Exchange at the place of registration shall withdraw the registration certificate of overseas listing of such domestic company.

TAXATION

Taxation in Hong Kong

Tax on dividends

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Taxation on capital gains and profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of the H Shares. Trading gains generated from the sale of H Shares by persons who carry out trade, professional services and businesses carried in Hong Kong will be subject to Hong Kong profit tax, if such gains are derived or sourced from such trade, professional services and businesses carried out in Hong Kong. Currently, the profit tax rate is 16.5% for corporations and no more than 15% for unincorporated businesses. Gains from sales of the H Shares effected on the Hong Kong Stock Exchange will be deemed to be derived from or sourced in Hong Kong. Therefore, persons engaged in securities trading or dealing businesses in Hong Kong are liable to paying Hong Kong profit tax for trading gains received from the sale of H Shares on the Hong Kong Stock Exchange.

Stamp duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the H Shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the H Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical transaction for the sale and purchase of H Shares. In addition, a fixed duty of HK\$5.00 is chargeable on each instrument of transfer (if required). Where a sale or purchase of H Shares is effected by a person who is not a resident of Hong Kong and who has not paid any stamp duty payable on the instrument of transfer, the transferee shall be liable to the payment of such duty and other duties payable in respect of relevant instrument of transfers (if any).

Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H Shares who die on or after February 11, 2006.